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IN THE

Supreme Court of the United States

OCTOBER TERM, 1932.

No. 752

SINCLAIR REFINING COMPANY,
Petitioner,

vs.

JENKINS PETROLEUM PROCESS COMPANY,
Respondent.

BRIEF FOR RESPONDENT.

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INDEX.

PAGE

Statement of the Case 1

Summary of Argument..... 12

Argument 16

I. The Respondent is Entitled to Discovery from the Petitioner in Advance of the Trial of the Pending Action at Law of Facts and of Documents Which Are Relevant and Material Only to the Issue of the Amount of the Damages Which are Recoverable in that Action at Law 16

The Decision of the Circuit Court of Appeals for the First Circuit in this Case is not Necessarily in Conflict with the Decison of the Cruit Court of Appeals for the Second Circuit in the Munger Case 20

The Decision of the Circuit Court of Appeals for the First Circuit in This Case Does Not in Any Respect Conflict with the Decision of the Circuit Court of Appeals for the Second Circuit in the Loose Case 26

Early American and English Cases and Authorities Relative to the Right to Discovery Are Applicable to the Determination of the Respondent's Right to the Discovery Sought Herein Irrespective of Any Changes in the Procedure for Obtaining Discovery..... 30

The Respondent is Entitled to Discovery from the Petitioner of Facts and of Documents Which Are Relevant and Material to any Issue or Question of Fact Which Will be Tried and Submitted to the Jury at the Trial of the Pending Action at Law 34

The Amount of the Damages is an Issue in the Pending Action at Law and the Respondent is Entitled to Discovery of Facts and of Documents Which Are Relevant and Material to that Issue..... 41

(1) English Authorities on the Right to Discovery Relative to the Amount of Damages or to other Relief.... 44

(2) English Opinions on the Right to Discovery Relative to the Amount of Damages or to other Relief..... 45

(3) English Opinions Relative to the Postponement of Consequential Discovery Until Preliminary Issues have been Determined 57

(4) Decisions of Courts of the United States Which Have Allowed Discovery Relative to the Amount of Damages 62

(5) Opinions of State Courts Which have Allowed Discovery Relative to the Amount of Damages..... 66

(6) The Inconsistency Between the Opinions in the Munger Case and the Opinion of this Court in Carpenter v. Winn 72

II. The Opinion of the Circuit Court of Appeals for the First Circuit in this Case does not Conflict with the Opinion of the Circuit Court of Appeals for the Seventh Circuit in Bradford v. Indiana Harbor Belt Railroad Company on the Question of What Constitutes a Sufficient Showing of Necessity for Discovery in Aid of an Action at Law..... 77

III. The Decision of the Circuit Court of Appeals for the First Circuit That the Respondent is Entitled to Introduce Evidence Such as is Sought by the Bill of Discovery Herein as to the Results of the Isom Application and as to the Commercial Utility of the Invention of the Isom Patent as Shown by its Use in the Oil Cracking Art or Industry is in Accordance with the General Principles of Law.. 83

The Allowance of Adequate Compensation is the Fundamental Principle of the Law of Damages 87

The General Rule That the Market Value of Price Governs the Determination of the Damages Recoverable for a Breach of a Contract is not Applicable to the Pending Action at Law in Aid of Which Discovery is Sought..... 90

The Evidence of Which Discovery is Sought Herein Will be Relevant and Material to Establish the Amount of the Respondent's Damages in Accordance with the Rule of the Allowable General Damages for a Violation of a Patent Right 99

The Respondent is Entitled to Recover the Gains Which it Was Prevented from Obtaining by the Petitioner's Refusal to Assign the Isom Patent and Invention as the Measure of the Damages Recoverable in the Pending Action at Law in Aid of Which Discovery is Sought 115

The Respondent Should be Permitted to Introduce Evidence at the Trial of the Pending Action at Law as to All Facts, Circumstances and Conditions Which May Be Informative and of Assistance to the Jury in Determining a Fair Value for the Isom Application or Patent and for the Isom Inventions and Improvements 124

The Highest Intermediate Value of the Isom Patent or Invention Between the Date When that Patent or Invention Should have Been Assigned to the Respondent and the Date of the Trial Also is a Proper Measure of the Damages for the Petitioner's Breach of the Contract of October 2, 1916..... 130

IV. It Would be Unreasonable to Hold That the Contract of October 2, 1916 only Could Have Been Breached When the Isom Patent Application was Filed 136

Conclusion 138

TABLE OF CASES.

Adams v. Fisher, 3 Myl. & Cr. 526.....51, 52, 55, 56
American Telephone & Telegraph Co. v. Radio Audion Co. 5 F. (2d) 535 (Dist. of Del., 1925).... 106
Anvil Mining Co. v. Humble, 153 U. S. 540..... 120
Beacon Folding Machine Co. v. Rotary Machine Co. 17 F. (2d) 934 31
Bloomer v. McQuewan, 14 How. 539..... 89
Bradford v. Indiana Harbor Belt Railroad Co. 300 Fed. 78, 80.....78, 80
Brown v. E. H. Clement Company, 203 N. C. 508, 166 S. E. 515 69
Brown v. Evered & Company, 21 R. P. C. 501 (1904 Scotland) 48
Burns v. Lipson, 204 N. Y. App. Div. 643 (1923).. 71
Byron Weston Co. v. L. L. Brown Paper Co. 13 F. (2d) 412 31
Carpenter v. Winn, 221 U. S. 533..12, 20, 64, 72, 74, 75, 76
Chicago, Milwaukee & St. Paul Railway Co. v. McColl-Dinsmore Co. 253 U. S. 97..... 88
Cincinnati Siemens-Lungren Gas Co. v. Western Siemens-Lungren, 152 U. S. 200, 38 L. Ed. 411.14, 108, 118
Colgate v. Compagnie Francaise du Telegraphe de Paris a New York, 23 Fed. 82.....62, 63, 64
Continental Paper Bag Co. v. Eastern Paper Bag Co. 210 U. S. 405..... 89
Coupe v. Royer, U. S. 565..... 103
Crichfield v. Julia, 147 Fed. 65.....124, 140
J. H. Day Co. v. Mountain City Mill Co. 225 Fed. 622 31
Dabovich v. Emeric, 12 Cal. 171 (1859)..... 134
De La Rue v. Dickinson, 3 K. & J. 388.....23, 61
Dowagiac Manufacturing Co. v. Minnesota Moline Plow Company, 235 U. S. 641.....14, 104

Eckington & Soldiers Home Railroad Co. v. McDevitt, 191 U. S. 103, 48 L. Ed. 112.....14, 116
Eibel Process Co. v. Remington-Martin Co. 197 Fed. 760 23
Elkin v. Clarke, 21 W. R. 447 (1873).....49, 51
Federal Wall Paper Co. v. Kempner, 244 Fed. 240. 88
Fennessy v. Clark, 37 Ch. D. 184 (1887).....23, 60
Galigher v. Jones, 129 U. S. 193, 32 L. Ed. 658. 14, 130, 132
Gasoline Products Co. v. Champlin Refining Co. 39 F. (2d) 521..... 120
Goodrich Zinc Corporation v. Carlin, 4 F. (2d) 568. 31
Gregg v. Fitzhugh, 36 Tex. 127 (1871)..... 134
Guyot v. Hilton, 32 Fed. 743.....63, 64
Henry v. North American Railway Construction Co. 158 Fed. 79..... 127
Hetzel v. Balitmore & Ohio Railroad Co. 169 U. S. 26 .....108, 139
Hofman v. Seixas, 33 N. Y. Supp. 23 (1895)..... 70
Hunt Bros. Food Packing Co. v. Cassiday, 54 Fed. 585 .....113, 114
Hyatt Roller Bearing Co. v. United States et al. 43 F. (2d) 1008..... 129
Jenkins Petroleum Process Co. v. Sinclair Refining Co.
32 F. (2d) 247..... 4
32 F. (2d) 252..... 4
38 F. (2d) 820.....5, 24
56 F. (2d) 272..... 8
62 F. (2d) 663.....9, 136
Kent v. Ginter, 23 Ind. 1 (1864)..... 134
Legett & Platt Spring Bed Co. v. Crooks, 34 F. (2d) 492 129
Loose v. Bellows Falls Plaster Co. 266 Fed. 81.... .....16, 17, 19, 26, 27, 28, 30, 42, 62
Luten v. Camp, 221 Fed. 424..... 31

McKinley v. Williams, 74 Fed. 94..... 132
McKinnon-Young Co. v. Stockton and Lane, 55 Fla. 708, 46 Sou. 787 (1908)..... 66
Marquette Mfg. Co. v. Oglesby Coal Co. 247 Fed. 351 31
Munger v. Firestone Tire & Rubber Co. 261 Fed. 921 12, 16, 17, 19, 20, 21, 22, 23, 24, 25, 26, 28, 30, 40, 41, ...42, 57, 62, 74
Owen v. Morgan, 39 Ch. D. 316 (1888)..... 47
Pape v. Lister, L. R. 6 (Q. B.) 241 (1870)..... 45
Parker v. Wells, Law. Rep. 18 Ch. Div. 477.....22, 59
Payne v. Hook, 7 Wall. 425..... 32
P. M. Co. v. Ajax Rail Anchor Co. 216 Fed. 634.... 31
Pressed Steel Car Co. v. Union Pacific Railroad Co. 240 Fed. 135 and 241 Fed. 964..... 64
Rawes v. Chance, 7 Reports, Patent Cases, 275....22, 57
Safford v. Ensign Manufacturing Co. 120 Fed. 480 .....28, 64, 79
Saunders v. Jones, 7 Ch. Div. 435 (1877).....32, 46
Schrieber v. Heyman, 63 Law J. Rep. 749 (1894).. 50
Scott v. Neely, 140 U. S. 109..... 79
Seymour v. McCormick, 57 U. S. 16..... 109
Sherwood Bros. Inc. v. Yellow Cab Company, 283 Pa. 488, 129 Atl. 563 (1925)..... 67
Shepherd v. Hampton, 16 U. S. 200, 4 L. Ed. 369.... 135
F. Speidel Co. v. N. Barstow Co. 232 Fed. 617.... 31
Southern Bag & Burlap Company v. Boyd, 38 S. W. (2d) 565 (Texas, 1931)..... 68
Stapleton v. King, 40 Iowa 278 (1875)..... 134
Story Parchment Co. v. Paterson Parchment Paper Co. 282 U. S. 555 139
Suffolk Mfg. Co. v. Hayden, 3 Wall. 315..... .....14, 103, 110, 111, 112
Sugar Beet Products Co. v. Lyons Co. 161 Fed. 215. 23

Swinborne v. Nelson, 16 Beav. 416 55
Swift et al., 114 F. 947 132
United States v. Behan, 110 U. S. 338 88
United States v. Bitter-Root Co. 18 C. J. 28
United States v. Bitter Root Co. 200 U. S. 451 ....23, 28
United States Frumentum Company v. Lauhoff, 216 Fed. 610 .....14, 96, 100, 114
United States v. Swift & Co. 270 U. S. 124 94
Veiller v. Oppenheim, 26 N. Y. Supp. 1051 70
Wells v. Holman, 115 S. C. 443, 106 S. E. 224 (1921) 67
Westelox Co. v. United States, 37 F. (2d) 191 129
White v. Fuller, 104 Fed. 192 132
White v. Wilson, 37 N. Y. Supp. 193 70
Wolcott v. National Electric Signaling Co. 235 Fed. 224 31

TABLES OF STATUTES AND RULES CITED.

28 U. S. C. Sec. 397 (Judicial Code, Sec. 274 (a)).. 24
Rev. Stat. Sec. 723 (28 U. S. C. A. Sec. 384) 79
Rev. Stat. Sec. 724 (28 U. S. C. Sec. 636) .....
.....13, 75, 77, 78, 79, 82
Equity Rule 58 31
English Equity Rules of Practice Order 31 31

TEXT BOOKS CITED.

Hare on Discovery 28, 29
A Treatise on Discovery of Evidence by Bill and Answer in Equity, by Thomas Hare (1849).12, 34
Of the Rule in Chancery that a Defendant Who Has Submitted to Answer the Bill Must Answer Fully 52
Of the Purpose for Which Equity Assumes Jurisdiction to Compel a Discovery Merely.... 35

Principles and Practice of Discovery, by Edward Bray (London, 1883) 12, 42
As to the Definition or Function of Discovery. 37
The Extent or Scope of the Right..... 37
As to What is Relevant or Material Discovery 44
Objections to Discovery .....
Discovery of the Evidence of a Parties Case.. 44
Points in the Law of Discovery, by James Wigram (First American from the Second London Edition, 1842) 12, 35, 52
The Law and Practice of Discovery (Peile, London, 1883) 12, 32
Of the Objection that the Discovery Sought is not Immediately Material..... 40
Objections to Discovery 44
The Law of Discovery by R. E. Ross (Canadian Edition, 1912) 12, 45
Halsbury's "Laws of England" 45
Mr. Justice Story's Commentaries on Equity Jurisprudence (Fourteenth Edition) p. 519..... 33
Sedgwick on Damages, Ninth Edition, Vol. I, p. 491, Sec. 243 92
Sedgwick on Damages, Ninth Edition, Vol. I, p. 504, Sec. 250 92
Sedgwick on Damages, Ninth Edition, Vol. I, pp. 508, 509, Sec. 254..... 93
Sedgwick on Damages, Ninth Edition, Vol. I, pp. 510-512, Sec. 253 93
Hale on Damages, Second Edition, p. 273..... 93
Williston on Contracts, pp. 2392, 2393, 2394..... ..... 87, 88, 95, 116, 137
17 C. J. 717, Sec. 53 (b).....
Effect of Nature of Form of Action..... 108

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vs.

JENKINS PETROLEUM PROCESS COMPANY,
Respondent.

BRIEF FOR RESPONDENT.

STATEMENT OF THE CASE.

The writ of certiorari which was granted by this court on April 10, 1933, on the petition of the Sinclair Refining Company, brings before this court for review a decision and decree of the Circuit Court of Appeals for the First Circuit which sustains the right of the respondent to maintain its bill in equity herein for the discovery by the petitioner of facts which rest peculiarly within the knowledge of the petitioner and of documents in the possession of the petitioner, which are relevant and material to the support of the respondent's case in an action at law in which the respondent is the plaintiff and the petitioner is the defendant, and which is pending and is undetermined on the law side of the United States District Court for

the District of Maine, the court in which this bill in equity for discovery was filed.

The action at law in aid of which the discovery hereunder consideration is sought, originated in a suit in equity which was instituted on January 21, 1921, when the respondent filed a bill of complaint to secure specific performance of a written contract between the respondent and the petitioner's predecessor, the Cudahy Refining Company. (R. 46.) That contract, dated October 2, 1916 (R. 14), related to the loan by the respondent to the petitioner of an experimental still for cracking petroleum oils to produce gasoline, and to advice and assistance to be given to the petitioner's experts in connection with further experimental work to be carried on with reference to a process for treating petroleum oils which had been invented by Mr. Ulysses S. Jenkins. The provisions of the contract of October 2, 1916, on account of which relief was sought by the original bill in equity, and on account of which damages now are claimed in the declaration in the pending action at law, are as follows:

> "It is further definitely understood and agreed between us *that any improvements, whether of a mechanical nature, or in the process,* which may be developed as the result of the work of your (Cudahy Refining Company's) engineers and experts in familiarizing themselves with the Jenkins apparatus and process, *shall accrue to the Jenkins Petroleum Process Company,* and that you shall, so far as you are able to do, cause your employees carrying on such experimental work to execute applications for patents for the United States and any other countries to protect any such improvements, but at the expense of the Jenkins Petroleum Process Company, and *to assign said applications, together with the improvements they are intended to protect, to the Jenkins Petroleum Process Company.* * * *"*
> (Italics ours.)

The bill of complaint in the original suit in equity for specific performance and the declaration in the pending action at law for damages for a breach of the contract of October 2, 1916, each alleges full performance by the respondent of its obligations under the contract of October 2, 1916, the use of the experimental still and of the services of Mr. Jenkins by the petitioner, and particularly by Edward W. Isom, an employee and an officer of the petitioner, and then alleges that said Edward W. Isom, having acquired the ideas and having obtained instruction, information and advice from Mr. Jenkins and from other officers and employees of the respondent, surreptitiously and without the knowledge of the respondent or of its officers or representatives, filed a certain application for letters patent of the United States; that thereafter letters patent of the United States No. 1,285,200 issued to the petitioner on that application; that the apparatus and process described in said Letters Patent No. 1,285,200 was developed as a result of the opportunities afforded to Edward W. Isom and to other engineers and experts and employees of the petitioner to familiarize themselves with the Jenkins apparatus and process, and of the instructions, information and advice given to Edward W. Isom and to other engineers and employees of the petitioner by Mr. Jenkins and by other officers and representatives of the respondent; that the apparatus and process described in said Letters Patent No. 1,285,200 embody the essential features of the invention of Mr. Jenkins and disclose in addition thereto only improvements of a mechanical character and in the process; and that in so far as the apparatus and process described in said Letters Patent No. 1,285,200 have merit and utility in the art, such merit and utility consist simply in improvements and adaptations in the Jenkins apparatus and process.

After a hearing and the introduction of evidence on behalf of both parties, the District Court held that a case for specific performance had not been established. (32 F. (2d) 247.) The opinion of the Circuit Court of Appeals for the First Circuit on the appeal of the respondent from the decree of the District Court in the original suit in equity (32 F. (2d) 252) stated:

> "That Isom made his invention from what was disclosed by Jenkins rather than from knowledge gained from his own experimentation, the prior art, and from all that had been disclosed by prior patents, is not in our opinion *so clearly shown* as to ground a decree for specific performance." (p. 256) (Italics ours.)
>
> * * * * *
>
> "To sustain a decree of specific performance the contract not only should be clear and unambiguous, but the evidence in relation to acts alleged to have been done under it and necessary to give it effect should be clear and convincing.
>
> Failing such evidence, the parties must be left to their equitable or legal remedies; the bill must be dismissed without prejudice and without costs." (p. 257)

In its mandate, however, the Circuit Court of Appeals for the First Circuit modified its own opinion and the decree of the District Court, and ordered, adjudged and decreed that:

> "The decree of the District Court is affirmed so far as it denies specific performance of the contract of October 2, 1916. But so far as it dismisses the bill as to other issues involved, it is reversed; and as to those issues the case is remanded to the District Court with directions to transfer it to the law side of the court, where within thirty days from the date of this order the plaintiff may have leave to amend its bill of complaint into an action at law for breach of the contract of October 2, 1916. No costs are to be allowed to either party." (R. 78.)

In accordance with that mandate and with an order of the United States District Court for the District of Maine transferring the cause to the law side of that court, the declaration in the pending action at law in aid of which the bill in equity for discovery herein was brought, was filed on August 28, 1929. The petitioner's motions to strike out the declaration and to dismiss the action were argued and were denied. (38 F. (2d) 820.) Thereafter, the petitioner's motion for further and better particulars and the respondent's motion for leave to amend the declaration by adding a third count were heard by the court and the motion for leave to amend was granted. (R. 18.) Thereafter, the petitioner filed its plea and its brief statement of the special matters of defense to be used under the general issue pleaded, and issue was joined by the respondent on the petitioner's plea. (R. 24.)

Briefly stated, the declaration in the pending action at law in aid of which the bill in equity for discovery herein was filed by the respondent, alleges a breach by the petitioner of the contract of October 2, 1916, in that the petitioner, regardless of its obligations under and in accordance with the terms of said contract, did not cause Edward W. Isom to assign to the respondent his application for letters patent on which letters patent of the United States Number 1,285,200 issued, and in that the petitioner did not turn over to or cause to accrue to the respondent the improvements of a mechanical nature and in the process which are described in said letters patent and for the protection of which said application for letters patent was filed, and the declaration prays damages for that breach of the contract.

The bill in equity which was filed herein by the respondent on September 8, 1931, is alleged to be brought for the discovery by the petitioner of facts which rest

peculiarly within the knowledge of the petitioner, and of documents in the possession of the petitioner, which are material to the support of the respondent's case in the action at law which now is pending and is undetermined on the law side of the court in which the bill was filed.

After alleging the facts which have been set forth hereinbefore with reference to the proceedings in the action at law, the bill further alleges, on information and belief, that during the period of time starting on the 19th day of November, 1918, namely, the date of the issuance of the Isom Patent No. 1,285,200, and extending down to the date of the filing of the declaration in the action at law, namely, to August 28, 1929, the petitioner, the Sinclair Refining Company, constructed, operated and used a large number of cracking stills for the commercial production of gasoline and of other petroleum products resulting from the cracking of petroleum oils; that each and every of said cracking stills embodied and contained the characteristic and salient elements and features of the devices and inventions covered by the claims of United States Letters Patent No. 1,285,200 which was issued under date of November 19, 1918, to the petitioner as the assignee of Edward W. Isom; that the cracking stills constructed as alleged in accordance with the design and with the general idea of said Patent No. 1,285,200, produced during the period of time for which the discovery is sought, a large part, if not all of the commercial production of the petitioner of gasoline and of allied petroleum products resulting from the cracking of petroleum oils, and that the inventions of said Patent No. 1,285,200 have been the basis of such commercial production of the petitioner during the period of time specified.

The bill in equity for discovery herein then alleges that the respondent cannot safely proceed to the trial of

the pending action at law, and cannot prove with any degree of accuracy and completeness at the trial of that action at law, the damages which the respondent has suffered by reason of the petitioner's breach of the contract of October 2, 1916, without

(a) The full discovery by the petitioner as to whether or not it constructed and operated during the time thereinbefore specified any cracking still or cracking stills as thereinbefore mentioned and defined;

(b) The full discovery by the petitioner as to the number, if any, of such cracking stills, the date each such cracking still was constructed and the period of time each such cracking still was operated by the petitioner;

(c) An inspection of the drawings showing the particular character, type and construction of any such cracking still or cracking stills constructed, used and operated by the petitioner;

(d) The quantity of gasoline (in barrels) and of other allied petroleum products resulting from the cracking of petroleum oils in any such cracking still or cracking stills operated by the petitioner; and

(e) The amount of petroleum oils charged into any such cracking still or cracking stills constructed and operated by the petitioner.

The bill in equity for discovery herein alleges in paragraph 7 that the facts sought to be elicited from the petitioner are peculiarly and exclusively within the knowledge of the petitioner; that the documents sought to be inspected are exclusively and solely in the possession of the petitioner; that said facts and said documents are material to the support of the respondent's case as stated in the declaration in the action at law, and that said facts and said documents are not available to the respondent without the assistance of a court of equity. (R. 4.) The bill then further alleges that the production of the books, records and papers of the petitioner in response

to a subpoena *duces tecum* would not enable the respondent safely to prosecute its action at law by reason of the fact that the entries and notations in such books, records and papers are so numerous and so complicated that the respondent, its attorneys and other representatives, could not possibly ascertain definitely in a practical and correct manner and within any reasonable length of time, and especially not within the length of time which will be required for the trial of said action at law, either the amounts of petroleum oils charged into the cracking stills concerning which discovery is sought, or the production of gasoline or of allied petroleum products resulting from the cracking of petroleum oils in such cracking stills. (R. 5.)

The District Court sustained the petitioner's motion to dismiss the bill in equity for discovery. (56 F. (2d) 272.)

The opinion of the District Court, briefly summarized, stated the following reasons for sustaining the motion to dismiss:

> 1. Any breach of the contract of October 2, 1916, occurred not later than September 10, 1917, when the application for the Isom patent was filed.
>
> 2. For any breach of the contract the respondent is entitled to compensation commensurate with its loss at the time of the breach, namely, September 10, 1917, even if it is difficult to fix the value of the patent application or otherwise to determine the amount of the respondent's loss at the time of the breach.
>
> 3. The bill in equity for discovery cannot be maintained because its sole purpose is to discover evidence affecting the amount of damages.
>
> 4. Evidence of the value of the use of the Isom invention by the petitioner long after the date of the alleged breach would be inadmissible if offered at the trial of the action at law.

5. Evidence of the value of the Isom patent itself is inadmissible in the absence of evidence referring its value to the date of the breach of the contract.

6. The facts in the pending action at law do not bring the case within any of the recognized exceptions to the general rule that the respondent's rights must be determined as of the date of the breach of the contract, and therefore evidence of the value of the Isom patent or invention after the date of the breach of the contract cannot be admitted in evidence.

7. Discovery should not be required except on a very clear showing, where the information desired is very certainly admissible in evidence in the principal suit, and not as evidence merely, but as ultimate facts material to the issue.

On appeal, the decree of the District Court was reversed by the Circuit Court of Appeals for the First Circuit (62 F. (2d) 663), in an opinion which, briefly summarized, held:

1. That a bill for discovery may be maintained in the federal courts if the party filing such a bill shows that there is real need of it and that the desired evidence cannot be obtained in a practically useful way under Rev. Stat., Sec. 724, (28 U. S. C., Sec. 636); that the decision in *Carpenter* v. *Winn*, 221 U. S. 533, rather enlarges the field of bills for discovery, and that it is highly desirable that such evidence be sifted out before the jury trial. (p. 664.)

2. That bills for discovery may be brought to obtain evidence relevant only on the amount of damages. (In this connection the Circuit Court of Appeals for the First Circuit disagreed with the statement of the Circuit Court of Appeals for the Second Circuit in *Munger* v. *Firestone Tire & Rubber Co.* 261 Fed. 921, and in *Loose* v. *Bellows Falls Pulp Plaster Co.* 266 Fed. 81, to the effect that bills for discovery can be used only to obtain facts bearing on the "issues," *i. e.*, on questions of liability, and not to obtain evidence of damage, on the ground that

that statement is contrary to the weight of the American decisions and to the English law. (p. 664).)

3. That evidence as to the nature of the invention disclosed, its place in the art to which it relates, the step which the inventor took, and the change which it effected in the practice of the art, are facts which, with other relevant circumstances, may be introduced and may be supplemented by opinion evidence of value to establish the value of an application for a patent, which is a thing *sui generis*, and which has no market value in the strict sense of that term. (p. 665.)

4. That evidence of the profits, if any, which the Sinclair Company made by using the Isom invention would have no relevancy on the question of damages. (p. 665.) (However, no one of the interrogatories which are incorporated in the respondent's bill in equity for discovery, seeks to obtain any information or data in any way relative to any profits which the petitioner may have made, and the respondent never has contended that the petitioner's profits are the measure of the respondent's damages, or even that evidence as to petitioner's profits would be relevant and material to the issue of the amount of the respondent's damages.)

5. That the contract of October 2, 1916, may be regarded as broken when the petitioner finally disabled itself from performing it, and that on the facts alleged, the contract appears to have been broken on the date when the application became merged into the patent. (p. 665.)

In accordance with the opinion of the Circuit Court of Appeals for the First Circuit, the respondent is entitled to have discovery from the petitioner of general facts which show the commercial utility of the inventions of the Isom patent in the art or industry to which that patent relates; it is entitled to secure evidence relative to such matters as of any time up to the date of the trial of the action at law, and such evidence is relevant and material as one of the elements tending to establish the value of

the inventions of the patent. On the other hand, in accordance with this opinion, the respondent is not entitled to discovery as to the precise extent to which the petitioner has made use of the inventions of the Isom patent, and such evidence is not material to the respondent's case in chief. However, the opinion also further holds that if the petitioner shall deny the utility and the commercial success of the Isom invention, evidence of the petitioner's use of that invention might be highly significant, and the respondent thereupon would be entitled to the discovery prayed for by the bill but which is not to be allowed at the present time. From the statements in the opinion which is here under review, it therefore appears that the respondent now is entitled to the full discovery by the petitioner as to the number of Isom cracking stills constructed and operated by the petitioner, and as to the period of time each such cracking still was operated, and to an inspection of the drawings showing the character, type and construction of the Isom cracking stills constructed and operated by the petitioner, but the respondent is not entitled to the discovery of the details as to the products resulting from the operation of Isom cracking stills by the petitioner, or as to the stocks charged into those cracking stills by the petitioner.

SUMMARY OF ARGUMENT.

In accordance with the long established and thoroughly settled principles relative to discovery, a bill in equity may be maintained for the discovery of facts and of documents which are relevant and material to any issue, including the issue of the damages recoverable, which next is about to come on for trial in the pending action at law to which the suit in equity is ancillary. *A Treatise on Discovery of Evidence*, (Hare, 1849); *The Law and Practice of Discovery*, (Peile, London, 1883); *Principles and Practice of Discovery*, (Bray, London, 1885); *Points in the Law of Discovery*, (Wigram, First American from Second London Edition, Boston, 1842), and *The Law of Discovery*, (Ross, 1912). The situation in the pending action at law in aid of which this bill of discovery was filed is such, the petitioner's motions to strike and to dismiss having been denied and the petitioner's pleas to the declaration having been filed, that the next proceeding therein certainly will be a trial to the jury on the issues of the petitioner's breach of the contract of October 2, 1916, there in suit, and of the amount of the damages to which the respondent is entitled.

The statements in *Munger* v. *Firestone Tire & Rubber Company*, 261 Fed. 921, on which the District Court herein relied in dismissing the respondent's bill in equity because the discovery sought thereby relates solely to the question of damages, are not supported by any other authority whatsoever and they are contradictory to the opinion of this Court in *Carpenter* v. *Winn*, 221 U. S. 533. The opinion in *Carpenter* v. *Winn* establishes that the discovery which may be secured prior to trial by a bill in equity is identical in scope with the discovery

which may be obtained at the trial of an action at law under Section 724. Evidence relative to damages clearly may be obtained under Section 724, and therefore the same evidence must be obtainable by a bill in equity for discovery in aid of an action at law, provided only that there is a real necessity for obtaining the evidence prior to the trial rather than at the trial. The allegations of the bill in equity herein, which must be assumed to be true as against a motion to dismiss, clearly establish the necessity for the discovery prior to the trial of the action at law in aid of which the discovery is sought.

The general rule that the best evidence of the amount of the damages for a breach of a contract to transfer property is the market value of that property at the time when and the place where the delivery should have been made, is not applicable in the pending action at law in aid of which discovery is sought hereby, because the breach of the contract there in suit consists of the failure to assign an application for a patent and the improvements, whether of a mechanical nature or in the process, for the protection of which that patent application was filed, or to assign the patent which issued on that application. A patent only can be issued for a new and useful invention and every patent therefore differs from every other patent and every patent therefor has a purely individual utility and value. For that reason there never is any established market price from which the value as of any particular date can be ascertained.

The best and most satisfactory evidence as to the value of a patent consists of evidence as to the commercial use and as to the commercial utility of the inventions of that patent. The respondent therefore should be permitted to introduce at the trial of the pending action at law to which this suit in equity is ancillary, the

evidence sought to be obtained by the answers to the interrogatories set forth in the bill herein as well as all other evidence relative to the use by the petitioner in its commercial cracking of petroleum oils to produce gasoline, of the inventions disclosed and claimed in the Isom application and of the improvements, whether of a mechanical nature or in the process, to protect which that application was filed, as such evidence is relevant and material for the purpose of establishing the value of those inventions and of those improvements and the amount of the damages which the respondent has suffered on account of the petitioner's refusal to assign them to the plaintiff in accordance with the contract of October 2, 1916.

The amount of the respondent's damages should be measured either in accordance with the rule as to general damages for a violation of a patent right, (generally but incorrectly referred to as the reasonable royalty rule); *United States Frumentum Co.* v. *Lauhoff*, 216 Fed. 610; *Suffolk Mfg. Co.* v. *Hayden*, 3 Wall. 315, 18 L. Ed. 76; and *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Company*, 235 U. S. 641, 59 L. Ed. 398; or in accordance with the rule that the respondent is entitled to recover the gains which it was prevented from obtaining by reason of the petitioner's breach of the contract; *Eckington & Soldiers Home Railroad Company* v. *McDevitt*, 191 U. S. 103, 48 L. Ed. 112, and *Cincinnati Siemens-Lungren Gas Company* v. *Western Siemens-Lungren*, 152 U. S. 200, 38 L. Ed. 411; or in accordance with the rule of the highest intermediate value of the property between the date delivery should have been made and the date of the trial. *Galigher* v. *Jones*, 129 U. S. 193, 32 L. Ed. 658. As the rule of the highest intermediate value is applied in cases relating to property which does not have any fixed market value at which it can be replaced at any

time and to cases in which the contract in suit has been entirely performed by the plaintiff, either by paying for the property to be transferred or otherwise, that rule is especially applicable to the action at law to which this suit in equity is ancillary.

In any event the respondent should be permitted, because of the peculiar facts and of the peculiar situation in the action at law to which this suit is ancillary, to introduce evidence at the trial of that action as to all facts, circumstances and conditions which may be informative and of assistance to the jury in determining a fair value for the Isom application or patent and for the inventions and improvements covered thereby, and the respondent should not be limited to any purely speculative inquiry as to the value of the Isom application as of the date that application was filed. In any event the breach of the contract should be held to have occurred not earlier than when the petitioner refused to assign the Isom patent to the respondent, and it should not be held to have occurred when the application on which that patent later issued was filed secretly in the Patent Office.

ARGUMENT.

I.

The Respondent Is Entitled to Discovery from the Petitioner in Advance of the Trial of the Pending Action at Law of Facts and of Documents Which Are Relevant and Material Only to the Issue of the Amount of the Damages Which Are Recoverable in That Action at Law.

The petitioner necessarily relies primarily, as it has relied primarily in its arguments before the District Court of the United States for the District of Maine, and before the Circuit Court of Appeals for the First Circuit, on the opinions of the Circuit Court of Appeals for the Second Circuit in *Munger* v. *Firestone Tire & Rubber Company*, 261 Fed. 921, and in *Loose* v. *Bellows Falls Pulp Plaster Company*, 266 Fed. 81, to support the proposition that a bill for discovery does not lie to discover evidence relative only to the amount of the damages recoverable in an action at law. The opinion of the District Court herein, cited, quoted and relied on those opinions in the *Munger* case, and in *Loose* v. *Bellows Falls Company* (R. 37), and no other opinions or authorities whatsoever, in sustaining the petitioner's motion to dismiss this bill of complaint for discovery on the ground that the sole purpose of the bill is to discover evidence affecting the amount of damages. The dissenting opinion of Judge Wilson of the Circuit Court of Appeals for the First Circuit also cites only the same opinions in support of the same proposition (R. 87), but that dissenting opinion also discusses a number of other opinions which sustained the right to maintain a bill

in equity for discovery relative, among other things, to the amount of the damages recoverable in a pending action at law, and draws a distinction between a bill of discovery to obtain evidence solely on the question of damages, which it states cannot be maintained, and a bill of discovery to obtain evidence essential to determine liability and also evidence bearing on the question of damages, which it states may be maintained. (R. 88.) That distinction appears to be illogical and to be entirely unsupported by authority. Certainly, if equity never allows discovery of facts or of documents which relate only to the amount of damages recoverable, as is stated in the opinions in the *Munger* case and in *Loose* v. *Bellows Falls Company*, that alleged principle of equity cannot become inapplicable merely because the discovery relative to the amount of the damages is sought in a bill which also seeks discovery with reference to some other issue in the same pending action at law.

The portion of the opinion of the Circuit Court of Appeals for the Second Circuit in the *Munger* case which primarily is responsible for the controversy which now is presented to this court for determination, is as follows:

> "In other words, equity grants discovery in aid of a plaintiff's right or cause of action or in aid of a defendant's defense. These are defined by the issues of the case; *whereas the amount of damages is never at issue.* If a plaintiff prevail upon the issues upon his cause of action, he will be entitled to nominal damages, though he prove no damage at all, and of course, if a defendant prevail upon the issues as to his defense, no damages will be recoverable. *The amount of damages is not an issue, but follows the determination of the issues in the case, and discovery is granted only in aid of the issues.*" (Italics ours.)

In *Loose* v. *Bellows Falls Company*, the Circuit Court of Appeals for the Second Circuit again stated:

> "* * * Equity will not aid law to ascertain

> damages by entertaining a bill for discovery. *Munger* v. *Firestone, etc., Co.* 261 Fed. 921, ... C. C. A. ..... A *fortiori* will it not retain a bill when the discovery desired has no other purpose than the liquidation of damages. * * *"

The opinion of the Circuit Court of Appeals for the First Circuit, in reversing the decree of the District Court herein, and in sustaining the respondent's right to maintain the bill in equity herein for the discovery of evidence which relates solely to the issue of the damages recoverable in the pending action at law, states with reference to this question:

> "The next point is whether such bills may be brought to obtain evidence relevant only on the amount of damages. In *Munger* v. *Firestone Co.* 261 Fed. 921 (C. C. A. 2), and *Loose* v. *Bellows*, 266 F. R. 81 (C. C. A. 2), it was decided that bills for discovery could be used only to obtain facts bearing on the 'issues', *i. e.*, on questions of liability, and not to obtain evidence of damage. The opposite result was reached in *Guyot* v. *Hilton*, 32 Fed. 743, cited with approval in *Carpenter* v. *Winn*, *supra*, and in *Colgate* v. *Compagnie Francaise*, *supra*, where apparently no such distinction between liability and damages was suggested."

After stating that discovery has been allowed with respect to damages in the state courts, citing opinions, and that in England the right to discovery does not appear to have been limited by the technical "*issues*" presented in an action at law, but to have been allowed as to facts bearing on any "*question*" presented in that action, citing cases and authorities, the opinion of the Circuit Court of Appeals for the First Circuit further states:

> "There is a practical distinction as above noted between cases in which the plaintiff will be compelled to present all his evidence, both on liability and on damages, at the same hearing, and cases in which the assessment of damages can be postponed until

the question of liability has been determined. The English law and the weight of American decisions appear to be that in cases of the former sort discovery will be ordered on damages as well as on liability.

We think this much the sounder view. Damages are an important element in litigation; they are the reason why an action is brought. There is no good reason why discovery should not be ordered as to damages, except that if the defendant wins on liability the evidence on damages will go for nothing. This is always true of evidence of damages in actions at law; it always goes for nothing if the defendant prevails. But this has never been thought a sufficient reason for splitting a jury trial; and it does not seem to us a sufficient reason for refusing discovery. We are not impressed by the distinction,—for which no authority is cited,—between '*issues*' and questions of fact, made in the Munger case."

The respondent respectfully submits that the decision of the Circuit Court of Appeals for the First Circuit in this case does not in fact conflict with the decisions of the Circuit Court of Appeals for the Second Circuit in the *Munger* case and in the *Loose* case.

The respondent further respectfully submits that the opinion of the Circuit Court of Appeals for the First Circuit in this case is fully supported by principle and authority, and, conversely, that the statements in the opinions of the Circuit Court of Appeals for the Second Circuit in the *Munger* case and in the *Loose* case, which have been quoted above, are directly contrary to and contradictory of the well established and well settled principles and the established practice of equity relative to discovery; that those statements are not supported by any prior opinions or authorities whatsoever; that those statements have not been accepted and followed as authority for any later decisions, except the decision of the District Court of the United States for the District of

Maine in this case; that those statements are contrary to and contradictory of the necessary implications from prior decisions of courts of the United States, and to express decisions of English courts and of courts of several of the states of the United States, and that those statements are inconsistent with the opinion of this court in *Carpenter* v. *Winn*, 221 U. S. 533. These several points of argument will be taken up in the order in which they are stated.

The Decision of the Circuit Court of Appeals for the First Circuit in This Case Is Not Necessarily in Conflict With the Decision of the Circuit Court of Appeals for the Second Circuit in the Munger Case.

The decision of the Circuit Court of Appeals for the Second Circuit in *Munger* v. *Firestone Tire & Rubber Co.* 261 Fed. 921, affirming the decree of the District Court dismissing the bill of discovery in that suit, probably was correct in accordance with certain well settled principles of equity. Those well settled principles, however, were not in any way involved in the decision of the Circuit Court of Appeals for the First Circuit which sustains the right of the respondent herein to the discovery which it seeks to obtain by the interrogatories incorporated in its bill in equity for discovery.

Very little attention is given in the opinion in the *Munger Case* to the character of the evidence which the plaintiff-appellant-petitioner in that case sought to obtain by his bill in equity for discovery. However, it clearly is apparent that that evidence is entirely different in its character and in its scope from the evidence which the respondent herein seeks to obtain by answers to its interrogatories. The interrogatories incorporated in the bill in equity in this case require only the production of

summarized data relative to the use and to the extent of the use by the petitioner of the inventions and of the improvements which the respondent claims should have been assigned to it by the petitioner in accordance with the provisions of the contract of October 2, 1916, and an inspection of the drawings of the cracking stills in which the petitioner is alleged to have used and to have practiced those inventions and improvements.

The discovery sought by the plaintiff-appellant-petitioner in the *Munger Case* was entirely different in character. That discovery related almost entirely to the most minute and confidential details of the defendant-respondent's business; to the names of the defendant-respondent's customers, and to the selling prices of the defendant-respondent's products, and it required the production of all of the defendant-respondent's books, invoices, records, vouchers, agreements, correspondence, papers, documents and other data, relating to those matters. It is apparent that the discovery sought by the plaintiff-petitioner in the *Munger Case* related almost exclusively to the profits made by the defendant-respondent out of the business done by it in alleged infringement of the patent in suit, and that that discovery sought only the production of the intimate details of the defendant-respondent's business which might tend to establish the amount of such profits. That fact was emphasized by the brief for the respondent in opposition to the petition for a writ of certiorari in that case.

No evidence whatsoever relative to any profits made by the petitioner herein through the use of the inventions and of the improvements which the respondent herein claims should have been assigned to it by the petitioner in accordance with the provisions of the contract of October 2, 1916, is sought in this suit by the respondent's bill in equity for discovery. The opinion of the Circuit

Court of Appeals for the First Circuit furthermore expressly states:

> "The profits if any which the Sinclair Company made by using the Isom invention have no relevancy on the question of damages, and no discovery should be ordered in respect to them. The plaintiff is not suing as the equitable owner of the patent. Our previous decision precludes it from that position. *Jenkins Petroleum Process Co.* v. *Sinclair Ref. Co.* (D. C.), 32 F. (2) 247."

The *Munger Case* should have been decided by the Circuit Court of Appeals for the Second Circuit, therefore, and the petition for a writ of certiorari in that case might have been denied, on the ground that none of the evidence sought by the bill of discovery therein was relevant or material to establish the damages, if any, recoverable in the action at law in aid of which the discovery was sought, because the profits made by the defendant-respondent in that case would not have been the measure of, or evidence tending to establish, the amount of the damages sustained by the plaintiff-petitioner on account of the alleged infringement.

The respondent's brief in opposition to the petition for a writ of certiorari in the *Munger Case* stated that the *only* proposition of law decided by the Court of Appeals, upon the basis of which it rightly affirmed the District Court in dismissing the bill for discovery, was that the petitioner therein could not, in aid of an action at law, have discovery of facts material only to the question of damages, until after the petitioner should have established a cause of action giving him a right to the relief asked. The meaning of that statement is clarified and emphasized in the section of the respondent's brief in the *Munger Case* which stated the facts and quoted portions of the opinions in *Rawes* v. *Chance*, 7 Reports Patent Cases, 275, 281, *Parker* v. *Wells*, L. R. 18 Ch. Div. 477,

Fennessy v. *Clarke*, 37 Ch. Div. 184, and *De La Rue* v. *Dickinson*, 3 K. & J. 388, and then stated:

"From this review of the English authorities it is clear that until after the plaintiff has *prima facie* established his *title to the relief claimed*, a bill for discovery of facts material only to the question of damages is premature and will be denied. * * *"

The respondent's brief in the *Munger Case* next stated the facts and quoted parts of the opinions in *United States* v. *Bitter Root Co.* 200 U. S. 451; *Sugar Beet Products Co.* v. *Lyons Co.* 161 Fed. 215, and *Eibel Process Co.* v. *Remington-Martin Co.* 197 Fed. 760, and then stated:

"The above are the only references we have been able to find in the federal courts relevant to the proposition for which the petitioner here contends. They, and the abundance of English precedents, are unquestionable authority for the action of the Court of Appeals in affirming the District Court in dismissing the bills for discovery on the ground that they are premature and that the defendant should not be compelled to submit to an examination as to profits, before a *prima facie* case has been made as to the defendant's liability. * * *"

The same propositions were urged by the respondent in the *Munger Case* in its brief as the appellee in that case in the Circuit Court of Appeals, and the same American and English authorities were relied on to support those propositions. The respondent herein therefore submits that the opinion of the Circuit Court of Appeals for the Second Circuit in the *Munger Case* should be interpreted with reference to the propositions which were urged by the prevailing party in that court, and in the light of the earlier opinions which supported those propositions. As so interpreted the *Munger Case* did not hold that equity never allows discovery with reference to the question of the amount of the damages

recoverable in an action, but only held that on the facts disclosed by the record in that particular case, the discovery sought by the plaintiff-appellant-petitioner was premature. As so interpreted, the decision of the Circuit Court of Appeals for the Second Circuit in the *Munger Case* does not in any way conflict with the decision of the Circuit Court of Appeals for the First Circuit in this case, as, in accordance with the propositions and with the authorities referred to above, and which must have been the basis for the decision in the *Munger Case*, the respondent herein is entitled to the discovery sought by the bill in equity herein.

The respondent already has made a *prima facie* case which entitles it to the verdict of the jury on the issues in the pending action at law in aid of which discovery is sought, namely, on the issues as to whether or not the petitioner has breached the contract of October 2, 1916, as alleged in the declaration, and, if so, as to the amount of the damages which the respondent has suffered on account of that breach. All preliminary questions in that action at law have been heard and have been determined. (38 F. (2d) 820.) The petitioner has filed its plea to the respondent's declaration in the action at law, and the respondent has joined issue on that plea, and, therefore, that action at law certainly, without any further proceedings therein, next is about to come on for trial to a jury on those two issues.

The evidence taken in the original suit in equity for specific performance of the contract of October 2, 1916, is evidence in the pending action at law. 28 U. S. C. Sec. 397, (Judicial Code, Sec. 274 (a)). The Circuit Court of Appeals for the First Circuit could not have remanded the original suit in equity to the District Court with instructions to permit the respondent to amend its bill in equity for specific performance of the

contract of October 2, 1916, into a declaration at law for damages for the breach of that contract, without holding affirmatively that the evidence introduced in the original suit in equity makes a *prima facie* case which now entitles the respondent to go to the jury even if no other or additional testimony be introduced at the trial of the pending action at law. The respondent, therefore, has satisfied the condition which the respondent in the *Munger Case* claimed is a prerequisite to the right to discovery. Because of the difference between the facts in the two cases, the *decision* of the Circuit Court of Appeals for the Second Circuit in the *Munger Case* does not conflict with the *decision* of the Circuit Court of Appeals for the First Circuit herein, because the respondent herein already has established a *prima facie* case which entitles it to have its case submitted to the jury.

The fact that the jury will not consider the question of the damages unless and until it has found in favor of the respondent on the preliminary question of the liability of the petitioner to the respondent, does not alter the fact that in an action at law to a jury the preliminary question of liability and the consequential question of damages are issues which must be tried together and which must be submitted together to the jury. There is no possible proceeding by which the verdict of the jury to which the pending action at law will be submitted, first could be secured on the question whether the Sinclair Company breached the contract of October 2, 1916, by refusing to assign the Isom application or invention or patent to the Jenkins Company; by which the respondent then could have an opportunity to develop the evidence necessary to prove the amount of the damages by filing a bill of discovery, and by which there finally would be a second presentation to the jury

on the question of the amount of the damages to be awarded to the respondent.

Even in accordance with the decision in the *Munger Case*, as interpreted in the light of the principles established by the authorities which were submitted in support of the positions of the prevailing party in that case, the respondent herein is entitled to the discovery which is allowed in accordance with the opinion of the Circuit Court of Appeals for the First Circuit, because the respondent herein already has made out a *prima facie* case which entitles it to go to the jury for one trial and determination of the issues of the petitioner's liability and of the amount of the damages, and because therefore the discovery allowed herein cannot be claimed to be premature.

The Decision of the Circuit Court of Appeals for the First Circuit in This Case Does Not in Any Respect Conflict With the Decision of the Circuit Court of Appeals for the Second Circuit in the Loose Case.

The petition for certiorari herein (p. 6) alleges that the decision of the Circuit Court of Appeals for the First Circuit in this case is in direct conflict with the decision of the Circuit Court of Appeals for the Second Circuit in *Loose* v. *Bellows Falls Pulp Plaster Company*, 266 Fed. 81. The *Loose Case* undoubtedly was decided correctly in accordance with long established principles of equity practice, but the principles which were determinative of the *Loose Case* are not in any way involved in the decision of the Circuit Court of Appeals for the First Circuit which sustains the right of the respondent herein to maintain its bill in equity for the discovery of evidence relative to the amount of the damages recoverable in the pending action at law.

Loose v. *Bellows Falls Company* was a suit in equity for the recovery of royalties of fifty cents per ton which were alleged to be due to the plaintiff in accordance with the provisions of a patent license agreement with the defendant on all the defendant's production of plaster containing wood pulp. The bill also prayed for a discovery of the records of the corporate defendant so as to ascertain the quantity of plaster containing wood pulp which had been made and sold by the defendant and on which the royalties were alleged to be payable, for an accounting of the royalties, and for a decree for the royalties found to be due.

The Circuit Court of Appeals for the Second Circuit reversed the decree of the trial court because it found that equity did not have jurisdiction over the suit because the plaintiff sought merely to recover money computable with certainty as soon as the number of tons of plaster was ascertained. The court stated:

> "The method of recovering royalties being the same here as it would be if defendants were licensees, it is settled that a bill merely to get unpaid royalties will not lie. *Keyes* v. *Eureka, etc. Co.* 158 U. S. 150, 15 Sup. Ct. 772, 39 L. Ed. 929; *Heckscher* v. *Pennsylvania, etc., Co.* (D. C.) 205 Fed. 377, and cases cited."

With reference to the argument that the court of equity had jurisdiction of the suit because the bill of complaint asked discovery, the court stated:

> "Chancery grants discovery when the law affords no adequate remedy to extract from a defendant facts in his exclusive possession which are a part of or constitute the cause of action. But mere difficulty of proving his case will not confer on a plaintiff the right to file a bill. *United States* v. *Bitter Root Co.* 200 U. S. 472, 26 Sup. Ct. 318, 50 L. Ed. 550. Equity will not aid law to ascertain damages by entertaining a bill for discovery. *Munger* v. *Firestone, etc., Co.* 261 Fed. 921, ... C. C. A. .....

> A *fortiori* will it not retain a bill when the discovery desired has no other purpose than the liquidation of damages. Such is the present case; for there is no mutuality in the account. The cause of action rests on unquestionable written documents, and the only purpose of a bill in equity rather than a declaration at law is to avoid the trouble of proving before a jury, by the use probably of R. S. § 724 (Comp. St. § 1469), the number of tons made and sold by defendant."

It is clearly apparent that the question of the right to maintain a bill in equity for the discovery in advance of trial of evidence relative to the damages recoverable in a pending action at law was not in any way involved in the decision in the *Loose Case* and that the portion of the opinion in the *Munger Case* which is quoted in the opinion in the *Loose Case* did not have any bearing whatsoever on the question before the court for decision.

It always has been the established and undisputed rule that if a bill in equity for relief and for discovery fails as to the relief it also necessarily fails as to the discovery. *United States* v. *Bitter Root Co.* 200 U. S. 451; 18 C. J. pp. 1060-1061 and cases cited in note 58, and pp. 1072-1073 and cases cited in note 41, and *Safford* v. *Ensign Manufacturing Company*, 120 Fed. 480. In accordance with the same principle it was the established rule in the old equity practice in England that if a demurrer to the relief were sustained no right remained to the discovery sought in the same bill relative to the relief. Hare on Discovery, p. 6, and cases cited in note "o" on that page.

The necessity for the application of the principle referred to above in the practice in the United States courts is explained in the opinion of the Circuit Court of Appeals for the Fourth Circuit in the *Safford Case* as follows:

> " 'In reality, what is wanted here is rather a dis-

covery than an account. Undoubtedly, a simple bill for a discovery might have been sustained in aid of a suit brought or to be brought at law, unless section 724, Rev. St. (U. S. Comp. St. 1901, p. 583), renders such bill unnecessary; and the point here is whether this can be sustained as a bill for discovery and relief. Such bills have been sustained in various jurisdictions, apparently through a misapplication of the maxim that equity, having assumed jurisdiction of a cause for one purpose, will retain jurisdiction to grant relief; but the whole practice seems to be clearly opposed to the principle, and to the established English practice, after which the federal equity practice is modeled. 1 Story, Eq. Jur. (13th Ed.) p. 78, note on Jurs. for Dis.; 2 Am. & Eng. Enc. Law, 199, note 6. But, however this may be in state jurisdictions, it has been held by the highest federal authority that 'the Constitution, in its seventh amendment, declares that in suits at common law, where the value in controversy shall exceed $20, the right of trial by jury shall be preserved. In the Federal Courts this right cannot be dispensed with, except by the assent of the parties entitled to it, nor can it be impaired by any blending with a claim properly cognizable at law of a demand for equitable relief in aid of the legal action or during its pendency. Such aid in the federal courts must be sought in separate proceedings, to the end that the right to a trial by jury in the legal action may be preserved intact.' * * *"

Hare on Discovery (p. 3) states:

"That a demurrer, which is good to the relief prayed, is a defence also to the discovery."

And on page 6 states:

"Since this period (the decision in *Price* v. *James*, 2 Bro. C. C. 319 in 1788) the rule has been acknowledged and adopted in a long current of authorities, that, to support a general demurrer to a bill seeking both discovery and relief, it is sufficient to show that the plaintiff is not entitled to the relief which he prays; and that, therefore, the addition of a prayer for relief to a bill seeking discovery will render that discovery dependent upon the title to relief."

From the statements quoted above it is clearly apparent that no discovery of any kind whatsoever could have been allowed because of any prayer in the bill of complaint in the *Loose Case*, because that bill of complaint sought both relief and discovery and because there was no jurisdiction in equity over the relief sought. The *Loose Case*, therefore, except for the unnecessary repetition of the statement which had been made in the *Munger Case*, does not have any bearing one way or the other on the question which is presented for determination in this case.

Early American and English Cases and Authorities Relative to the Right to Discovery Are Applicable to the Determination of the Respondent's Right to the Discovery Sought Herein Irrespective of Any Changes in the Procedure for Obtaining Discovery.

There are very few opinions of the courts of the United States which directly discuss the question whether a court of equity may allow discovery of facts and of documents which relate solely to the question of the damages recoverable in an action at law. That condition, however, appears to be due primarily to the fact that the principles and the practice of equity relative to discovery have been so well established for so many years that this question has not been raised or discussed, either in the opinions of the courts or in the works on equity pleading and practice, even though some confusion and uncertainty as to the law was caused by the opinions of the Circuit Court of Appeals for the Second Circuit in the *Munger* and in the *Loose Cases*. The earlier authorities, however, state in the clearest and most unequivocal manner the propositions on which the respondent relies and which were accepted and approved by the Circuit Court of Appeals for the First Circuit.

The petitioner heretofore has attempted in its argument to support the proposition that the adoption of the new equity rules established a new practice and new principles relative to discovery and that the early authorities on the subject of discovery and the English cases in which that subject is discussed are not informative as to the principles which should govern the decision as to the right of the respondent herein to maintain this proceeding in equity for discovery in aid of the pending action at law.

As a preliminary matter, therefore, the respondent respectfully submits that it repeatedly has been held that Equity Rule 58 was intended merely to change the procedure with reference to obtaining discovery and that *that rule was not intended to change the long-established rules with reference to the subject matter of such discovery.* Equity Rule 58 was taken in substance from Order 31 of the English Equity Rules of Practice, and the construction and application of the English rule in the many applicable English cases are informative as to the construction and application of Equity Rule 58 and as to the discovery which may be obtained in accordance therewith. *P. M. Co.* v. *Ajax Rail Anchor Co.* 216 Fed. 634; *Luten* v. *Camp*, 221 Fed. 424; *J. H. Day Co.* v. *Mountain City Mill Co.* 225 Fed. 622; *F. Speidel Co.* v. *N. Barstow Co.* 232 Fed. 617; *Wolcott* v. *National Electric Signaling Co.* 235 Fed. 224; *Marquette Mfg. Co.* v. *Oglesby Coal Co.* 247 Fed. 351; *Goodrich Zinc Corporation* v. *Carlin*, 4 F. (2d) 568; *Beacon Folding Machine Co.* v. *Rotary Machine Co.* 17 F. (2d) 934, and *Byron Weston Co.* v. *L. L. Brown Paper Co.* 13 F. (2d) 412.

It similarly appears from many of the authorities cited hereinafter, that the Judicature Acts in England made an alteration of procedure merely, and not an al-

teration in the law and doctrines of discovery which had been established theretofore in the Court of Chancery.

The Law and Practice of Discovery (Peile, London, 1883) states:

> "The Judicature Acts make an alteration of procedure merely, and not an alteration of the law, and if there was no right to file a bill of discovery, or to administer interrogatories before the passing of these Acts, there is no such right now. Similarly, they do not enable a party to decline answering an interrogatory or giving discovery on any ground on which he could not have declined doing so before. The right of discovery remains the same. Where there is any conflict or variance between the rules (*i. e., doctrines*) of equity, and the rules of the common law with reference to the same matter, the rules of equity are to prevail unless otherwise provided; consequently, the law and doctrines of discovery are now the same as they formerly were in the Court of Chancery, and the decisions of that Court should be looked to in order to ascertain the principle on which the Court is now to act." (pp. 4-5)

In *Saunders* v. *Jones*, 7 Ch. Div. 435, the court stated:

> "The right of a plaintiff in equity to discovery in my opinion has undergone no change from the earliest time from which the procedure of this Court can be traced."

It also is well established that the equity jurisdiction conferred on the courts of the United States is the same that the high court of chancery in England possessed. *Payne* v. *Hook*, 7 Wall. 425.

It therefore is apparent that irrespective of the changes which have been made in the practice relative to discovery in this country by the equity rules and in England by the Judicature Acts, no change has been made since the earliest days in the principles relative to the matters concerning which discovery may be had and

to the time at which discovery should be allowed relative to any issue. The discovery obtainable by means of the procedure provided for in equity cases by the equity rules, and the discovery obtainable by means of a bill of discovery in aid of a pending action at law, of course differ only as to procedure, and not at all as to the substantive rights involved. As there are no opinions of the courts of the United States which are directly applicable to the question here under consideration, other than the opinions which have created the alleged conflict between the Circuit Courts of Appeals for the First and for the Second Circuits on account of which presumably the writ of certiorari herein was allowed, it therefore is necessary to resort to the early opinions and authorities on the question of discovery to determine which of those opinions is correct in that it applies recognized and established principles of equity jurisprudence.

There do not appear to be any American authorities on the law of discovery which discuss the questions which are here under consideration. However, although the chapter on bills of discovery in Mr. Justice Story's *Commentaries on Equity Jurisprudence* (Fourteenth Edition) does not contain any discussion on the point here under consideration, nevertheless on page 519 the author states:

> "On the subject of discovery I beg leave to refer the reader to the very able work of Mr. Wigram on Points of Discovery, and of Mr. Hare on Discovery. In these two works the subject seems completely exhausted."

The Respondent Is Entitled to Discovery from the Petitioner of Facts and of Documents Which Are Relevant and Material to Any Issue or Question of Fact Which Will Be Tried and Submitted to the Jury at the Trial of the Pending Action at Law.

The authorities which are in point on the question under consideration, and especially the English authorities, establish conclusively that the proper determination of the question as to whether discovery should be allowed with reference to any particular issue or question of fact in a suit or action, does not in any way depend upon or require any consideration of the character or nature of the issue or question of fact as to which the discovery is sought;—that is, as to whether the particular discovery sought relates to the issue of the plaintiff's right or title or to the issue of the amount of the damages to which the plaintiff may be entitled. Irrespective of the character of the issue or question of fact concerning which discovery is sought, *the discovery should be allowed if, but only if, that particular issue or question of fact next is about to come on for trial.*

A Treatise on Discovery of Evidence by Bill and Answer in Equity, by Thomas Hare (Second American, from the last London Edition, 1849), states:

> "* * * The object of equity in enforcing discovery is to possess the plaintiff of the evidence which may tend to make available the right upon which he insists. All the facts or evidences in the knowledge or possession of the defendant material to the matters in dispute, must fall under some or one of three heads of description. They are,—*first*, evidence which may tend to sustain the plaintiff's case;—
>
> It is the fundamental principle of the doctrine of discovery, that a defendant in equity must disclose all the evidence which the plaintiff demands, and which may tend to support the plaintiff's case. To

the discovery of all the evidences which fall under the first of the foregoing heads of description, the plaintiff is therefore entitled upon the general principle." (p. 186)

In Chapter V, *Of the Purpose for Which Equity Assumes Jurisdiction to Compel a Discovery Merely*, Mr. Hare states:

"To administer to the ends of justice, without pronouncing any decision upon the rights of the parties, by possessing the plaintiff, who appears to have a legal or equitable right, of that evidence which is necessary to make a legal or equitable right available, equity will compel either party to a suit or action to confess or deny upon oath his knowledge of the facts alleged, which tend to sustain the case of the party seeking the discovery. It is given either because the plaintiff cannot otherwise prove the facts, or in aid of proof." (p. 110)

In *Points in the Law of Discovery*, by James Wigram (First American from the Second London Edition, 1842), the following propositions which are supported by exhaustive arguments and by references to many authorities are stated:

"First Proposition. *The pleadings in a cause and rules of practice, unconnected with the laws of discovery, determine* a priori *what question or questions in the cause shall first come on for trial. And the right of a plaintiff to discovery is in all cases confined to the question or questions in the cause, which, according to the pleadings and practice of the courts, is or are about to come on for trial.*" (p. 17)

* * * * *

"48. The object of a court of equity in compelling discovery, is, to enable itself or some other court to decide on matters in dispute between the parties, and the right to discovery is limited by the purpose with reference to which alone it is conferred, and will not, for that reason, extend beyond the exigencies of the question or questions about

to be tried. To determine what such question or questions may be, the ordinary rules of practice (unconnected with the laws of discovery) must be separately consulted. By these rules, if the defence be so framed as to raise an issue in law only, as by demurrer, the plaintiff will not be entitled to any discovery. If an issue or issues of fact be raised by the defence, (as by plea), the point to which the attention of the pleader will then be directed must be—what question or questions in the cause will first come on for trial? for, to such question or questions alone will the object of the court in compelling discovery apply. Where the defence therefore is made by plea, the plaintiff will not be entitled to any discovery which may not be necessary for the trial of the plea itself. Where the defence is by answer, the rules of equity (as a general proposition) put the parties in a different position. By these rules, a defendant who defends by answer, carries all the questions in the cause to trial simultaneously. * * *" (pp. 25-26)

* * * * *

"SECOND PROPOSITION. *It is the right, as a general rule, of a plaintiff in equity to exact from the defendant a discovery upon oath as to all matters of fact which, being well pleaded in the bill, are material to the plaintiff's case about to come on for trial, and which the defendant does not by his form of pleading admit.*" (p. 47)

* * * * *

"* * * Bythe first proposition, the '*plaintiff's case*,' must for the present purpose be a case which, according to the state of the pleadings and the practice of the court, is about to be tried. This, indeed, is involved in the terms of the second proposition.

94. Next, the '*plaintiff's case*,' must be a case (positive or negative) *made by the bill*. This is of necessity; for, by a settled rule of pleading, a point *not* made by the bill cannot be the subject of interrogation in the bill." (p. 54)

* * * * *

"* * * Now, the '*plaintiff's case*' (in the sense in which the words are here used) is that case

upon which the parties are about to go to trial. It follows, then, that discovery, which is not material to the proof of that case, is not within the scope of this proposition, however it may otherwise be *connected* with the subject of the suit. * * *" (p. 158)

With reference to the situation when a defendant has answered Mr. Wigram states:

"* * * And as all the points in the cause will thus come on for trial *simultaneously*, the right of the plaintiff to discovery will of necessity attach upon them all." (p. 80)

The Principles and Practice of Discovery, by Edward Bray (London, 1885), Introductory Chapter, *As to the Definition or Function of Discovery*, states:

"The right of discovery is the right by which a party to some proceedings (actually commenced or contemplated) before a civil court is enabled, before the determination of any matter in question in those proceedings, to extort on oath from another party to those proceedings—(1) all his knowledge, remembrance, information and belief (of facts: Redes. Pl. 34: Spence, Eq. Jur. 677: *Flight* v. *Robinson*, 8 Beav. p. 33: not of matters of law: see *post*, p. 115) concerning the matter so in question; (2) the production of all documents in his possession or power relating to such matter." (p. 1)

In Chapter I, *The Extent or Scope of the Right*, Mr. Bray states:

"In an action for relief the court has power to enforce in favour of a party to that action from an opposite party all discovery relating to any matter in question between them in that action.

A party to an action for relief is entitled as of right to have from the opposite party in that action all discovery material for the determination of any matter in question certainly about to come on for trial between them in that action." (p. 11)

After quoting the propositions of Mr. Wigram which have been quoted hereinbefore, Mr. Bray discusses fully

the modern practice in England relative to discovery and the differences in formal matters between that practice and the earlier practice, stating:

"* * * A defendant to an action is not now obliged to turn himself into a plaintiff, and file a bill in order to get discovery. Secondly, it is desired to emphasize more markedly the distinction between discovery required for the determination of an issue about to be tried, and that required only if the party succeeds in that issue, whether as being part of the relief sought, or as assisting him in his decree, or whether as being required for the determination only of some secondary issue. Discovery of the former kind is the party's absolute right: discovery of the latter kind may be for the time being withheld at the court's discretion. Under the old chancery practice, as will be seen (*post*, Chap. II), the distinction between these two kinds of discovery, though recognized in principle (see Wigr. Pl. 90), could not be carried into practical effect with the same freedom as is possible under the present procedure, unless the defendant were able by demurrer or plea to arrest the trial of the secondary issues, or the other matters to which the discovery related." (p. 12)

* * * * *

"Now, if it is impossible to say what matters of fact will be in question in the action, or if there is no matter of fact about to be in question in the action at all, it would seem to follow logically that no discovery of any kind can be had. And this is so generally in practice. Until statement of claim (in an action which requires a statement of claim) delivered (and sometimes even until statement of defence) it is generally impossible to say whether any matters of fact will ever be in question at all, or at any rate in what precise shape they will be presented. There will therefore generally be no right to discovery (by a plaintiff and of course not be a defendant) at that stage of the action: * * *" (p. 13)

* * * * *

"Now, under the old chancery practice, the dis-

covery given by a defendant was combined with his defense to the action, and formed practically a part of the pleadings under the name of the answer. In any treatise on discovery, therefore, it was essential to enter somewhat fully into the rules of pleading. And further, the only ways in which any preliminary issues of law or of fact could be raised were by demurrer or plea. Such was the technical strictness of procedure, that if once these stages were passed by, and a party submitted to answer, it was held that he must answer fully, that is, to the whole bill. If a party wished to say, 'There is a preliminary point which must be decided in your favour before you are entitled to put me on my defence in respect of this issue and get discovery in relation thereto,' he could in strictness only say so on demurrer or plea. When once the stage of answer was reached, all issues stood on the same footing; none could be classified as preliminary: see Wigr. Pl. 44, 48-52, 266: *Lancaster* v. *Evors*, 1 Ph. 349: *Swinborne* v. *Nelson*, 16 Beav. p. 427: *Taylor* v. *Milner*, 11 Ves. 42: and see *post*, p. 30. Under the present procedure discovery is separated entirely from the pleadings, and facilities are afforded by the rules of the Jud. Act for raising preliminary issues, both of law and fact, at various stages of the proceedings, and postponing all discovery not required therefor: see *post*, Chap. II.

But if no legal preliminary objection can be raised, and the stage of the action at which discovery is sought is proper, any objection must be founded upon the nature of the particular discovery sought. For, it being no longer possible to say either that it is not known what matters of fact will be in question, or that there is no matter of fact about to be in question, or that there is no matter of fact about to be in question in the action at all, it can only be urged that the particular discovery sought does not relate to the matters of fact which are about to be in question in the action, or is objectionable on other internal grounds. If the discovery required is relevant to the issues of fact about to be raised then, subject to established exceptions (see *post*, Bk. II), it must be given. If the party does

not choose to raise any objection which he might raise to the issue itself, he cannot raise such objection to giving the discovery relevant to the issue. The objection is to the issue being raised, and not to the discovery. If he intends to allow the issue to be raised, the giving of the discovery follows as a matter of course: he cannot withhold from the adversary the means of proving his case upon that issue: see *Morgan* v. *Harris*, 2 B. C. C. p. 123: *Dell* v. *Hale*, 2 Y. & C. C. C. p. 4: *post*, p. 19: and *Lyell* v. *Kennedy* (cited *post*, p. 392)." (pp. 14, 15, 16.)

A substantially similar discussion and analysis as to the principles which determine when discovery should be allowed with reference to any particular issue in a suit or action is found in *The Law and Practice of Discovery* (Peile, London, 1883) in the section entitled "Of the Objection that the Discovery Sought is not Immediately Material." In that section Mr. Peile states (pp. 26-29):

"The court, however, in its discretion, was in the habit of drawing a line between *accounts* which were necessary for the decision of questions which might occur at the hearing, and those which could in no event be required until the judgment came to be worked out, and could have no bearing on the issue in the action, as in cases of alleged partnership or agencies, or actions for infringement of patents, where the partnership or infringement was denied, and the discovery could not affect the question whether the plaintiff was an agent or partner or not, or whether or not there had been an infringement; again, *where the questions of liability generally and of damages were severable, discovery which was material to the latter question only, would not be given before the hearing.*" (Italics ours.)

The authorities quoted above clearly do not give any support whatsoever to the distinction between "issues" and questions of fact which was made in the *Munger Case*, and the Circuit Court of Appeals for the First

Circuit clearly was correct in not being impressed by that attempted distinction. Such phrases as "evidence which may tend to sustain the plaintiff's case" (Hare); "all matters of fact which are material to the plaintiff's case" (Wigram), and "any matter in question between them (the parties) in that action" (Bray), clearly establish that equity allows discovery relative to any question of fact concerning which evidence may be introduced at the trial.

The Amount of the Damages Is an Issue in the Pending Action at Law and the Respondent Is Entitled to Discovery of Facts and of Documents Which Are Relevant and Material to That Issue.

The propositions stated in the opinion in the *Munger Case*, that the amount of damages is never at issue in a case; that the amount of damages [illegible] issue, but follows the determination of the issues [illegible] case, and that discovery is not granted relat[illegible] of the damages recoverable because it is granted only in aid of the issues, is not supported by any authority cited in the opinion and it is thoroughly untenable and unsound. The amount of the damages recoverable in actions at law for damages almost invariably is at issue and the amount of such damages almost invariably is one of the most important issues in any action at law.

The petitioner's brief (pp. 48-57) entirely fails to cite any authority which in any way supports the propositions which were stated by the Circuit Court of Appeals for the Second Circuit in the *Munger Case* other than the opinion of the District Court in this case and the dissenting opinion of Judge Wilson in the Circuit Court of Appeals for the First Circuit. Each of those opinions relied entirely on the earlier opinions of the Circuit

Court of Appeals for the Second Circuit in the *Munger Case* and in the *Loose Case*.

The petitioner's brief (pp. 55-56) attempts to create the impression that *The Principles and Practice of Discovery*, by Edward Bray, supports the conclusion that discovery should not be allowed with reference to the consequential question of the amount of the damages until the preliminary question of liability has been determined. The quotation from the work by Mr. Bray which is quoted in the petitioner's brief (pp. 55-56) is found in the chapter on Consequential Discovery in which the author states in a preliminary paragraph that consequential or subordinate or dependent discovery is material or relevant discovery. (p. 24) Immediately preceding the paragraph quoted in the petitioner's brief, the following paragraph is found:

> "I. *The Present Practice.*
>
> The present practice is regulated by Ord. XXXI. r. 20. 'If the party from whom discovery of any kind or inspection is sought objects to the same, or any part thereof, the court or a judge may, if satisfied that the right to the discovery or inspection sought depends on the determination of any issue or question (including mixed questions of law and fact: Lindley, L. J. in *Tasmanian, &c. Co.* v. *Clark*, 27 W. R. p. 678) in dispute in the cause or matter, or that for any other reason it is desirable that any issue or question in dispute in the cause or matter should be determined before deciding upon the right to the discovery or inspection, order that such issue or question be determined first, and reserve the question as to the discovery or inspection.' By rule 6 (see *post*, p. 108) a party may object to answer an interrogatory on the ground that it is not sufficiently material at that stage. And by rule 12 (see *post*, p. 155) the application for an affidavit of documents may be adjourned, or the affidavit limited to particular classes of documents, on grounds of the same kind." (pp. 24-25.)

Immediately following the paragraph quoted in the petitioner's brief the following paragraphs are found:

> "Under the old chancery practice the court was much embarrassed in these cases of consequential discovery by the technical rule (see *ante*, p. 14) which required a party submitting to answer, though he altogether denied the plaintiff's title, to answer fully, even as to consequential matters, as of account: see Lord Selbourne in *Elmer* v. *Creasy*, L. R. 9 Ch. pp. 71-72: and, according to some judges, though not others, to produce all relevant documents as a part of such full answer: see *post*, sect. 2, as to the old chancery practice.
>
> Under the provisions of the above rules no technicalities of this kind compel the court to order discovery which is not required for the determination of the immediate issue before the court. (p. 25.)

It therefore is apparent that the only authority on which the petitioner herein relies does not in any way controvert the propositions on which the respondent relies. The petitioner merely has attempted to apply a principle which is not applicable because of the differences in the facts involved. The statement by Mr. Bray which is quoted in the petitioner's brief relates only to the procedure in equity when the preliminary question of liability and the consequential question of the amount of the damages can be separated and can be brought on for trial at different times, so that discovery with reference to the consequential question of the damages is not necessary until the preliminary question of the liability has been determined. As has been stated hereinbefore, however, nothing can be more certain than that the respondent must present at one trial to a jury in the pending action at law all of the evidence on which it will rely to establish both the petitioner's liability on account of the breach of the contract of October 2, 1916, and also the amount of the damages which it has suffered on account of that breach.

The authorities and opinions which are referred to and are quoted hereinafter fully establish that the petitioner's contentions are unsound and that on account of the facts in the present case the respondent now is entitled to discovery relative to the amount of the damages recoverable in the pending action at law.

(1) English Authorities on the Right to Discovery Relative to the Amount of Damages or to Other Relief.

In *The Principles and Practice of Discovery*, Chapter II, "As to What is Relevant or Material Discovery," Mr. Bray discusses that question and refers to many decisions from which it appears conclusively that evidence relative to the question of the amount of a party's damages is relevant and material to the issues in a case and that discovery of such evidence should be allowed.

In Book II. *Objections to Discovery*, Chapter III. *Discovery of the Evidence of a Parties Case*, Mr. Bray states:

> "* * * It has been pointed out *ante*, p. 21 (and see the cases *post*), that the amount of the claim has been always considered in equity to be a matter in question and therefore a legitimate subject of discovery. * * *" (p. 470.)

The Law and Practice of Discovery, (Peile, London, 1883) Chapter V. *Objections to Discovery*, the sections entitled "On the objections that the discovery is immaterial and irrelevant," also establishes that evidence relative to the amount of the damages recoverable is material and relevant. That section states:

> "The relevancy or otherwise of the particular discovery sought must be tested by reference to the pleadings (if any), and the issues or questions raised thereby, the relief claimed, and a consideration of the evidence which could be given at the trial in support of the case of the party seeking it. Thus,

in an action for breach of promise of marriage, an inquiry as to the means and position of the defendant is relevant, as evidence thereof could be given at the trial, though in an ordinary action, it would be wholly beside the question; * * * For the purpose of determining the right to the discovery it will be assumed that the party will ultimately be found to be entitled to the relief which he seeks, since otherwise it would come too late to be of any use to him, and that the relief is properly asked. * * *"

Halsbury's "Laws of England" states:

"So, also, discovery bearing only on the question of damages or accounts, and not on the question of defendant's liability, where it is possible to deal separately with the questions of liability and of the amount of damages, will sometimes be postponed until the question of liability is determined. *But where the discovery is for the purpose of enabling the party to obtain complete relief at the trial, and to do away with the necessity of an account being taken subsequently, the court may refuse to postpone it.*" —11 Halsbury's Laws of England 52.

The Law of Discovery by R. E. Ross (Canadian Edition, 1912) states:

"Interrogatories to ascertain the relief claimed, including the amount of the damages, or other relief are legitimate." (p. 75.)

(2) English Opinions on the Right to Discovery Relative to the Amount of Damages or to Other Relief.

Pape v. *Lister*, L. R. 6 (Q. B.) 241 (1870) was an action at law for a breach of a promise to marry. Issue had been joined on the defendant's pleas when the defendant sought leave to inspect letters written by him to the plaintiff and also letters written by the plaintiff to him which he had returned to the plaintiff.

The Court stated:

"Lush, *J.*—I have consulted my learned Brothers,

> and the conclusion at which we have arrived is, that this rule must be made absolute. I do not agree with Mr. Wills' contention that 'relating to such action' means relating to the issues raised. *I think if documents relate to the amount of damages, that is quite sufficient.* Now, in the present case it is true that the defendant's own affidavit is very vague. But we must look at the nature of the action. In such a case the letters of the parties must have a bearing at least upon the damages. * * *" (Italics ours.)

Saunders v. *Jones*, 7 Ch. D. 435 (1877) was an action similar to the old common law action for wrongful dismissal. The plaintiff claimed under a contract of employment as salesman and manager in accordance with which he was entitled to a percentage commission on the gross returns of the business. The defendant claimed that the plaintiff had been discharged rightfully and counterclaimed for moneys received by the plaintiff and withheld from the defendant. The plaintiff sought by interrogatories to develop, among other matters, the amount of the gross business on which he was entitled to the percentage commission in accordance with the alleged contract of employment. The defendant declined to answer that interrogatory on the ground that the right to an account was disputed and that the plaintiff therefore was not entitled to that stage of the cause to have an account set out.

On the appeal from the order allowing the desired discovery the defendant-appellant contended that it would be decided at the trial whether any commission was payable, and that until that had been decided, the defendant ought not to be compelled to set out an account of the commissions. In sustaining the order for the discovery the Appellate Court stated:

> "With regard to the last interrogatory, the only thing asked for is the aggregate amount on which the commission is due. *If the Plaintiff succeeds in*

his contention that he is entitled to a fixed commission upon the amount, his having that amount admitted would enable him at the trial, without any further inquiry or litigation, to obtain a decree for the payment of that which is due to him. It would be impossible to differ from the Vice-Chancellor in holding this is not one of those cases in which it is oppressive or hard, or might lead to great inconvenience, for a party to be called on to give an account." (Italics ours.)

* * * * *

"The only remaining question is as to the 5th interrogatory. It seems to me most reasonable that the Plaintiff should be allowed to put that interrogatory. *If it had been a common law action he would undoubtedly have been entitled to put the question contained in that interrogatory, because in such an action he would have been bound to prove his whole case, and part of the case being that he was entitled to a commission on all moneys received in particular years, he would have had to prove what those moneys were,* and such an interrogatory, as an interrogatory directed to showing that the amount received was, would be allowed as a matter of course. * * *" (Italics ours.)

Owen v. *Morgan*, 39 Ch. D. 316 (1888) was an action for the recovery of certain sums which the defendant was claimed to hold as a trustee for the plaintiff and for the interest on those sums which had been received by the defendant and had been applied by him to his own purposes.

The plaintiff sought by an interrogatory to ascertain the amount of such interest and the defendant appealed from an order requiring an answer to the interrogatory. Counsel for the defendant-appellant contended that as the trust was disputed, the plaintiff had no right at that stage of the proceedings to ask for information as to the way in which the fund had been dealt with; that unless the trust was admitted there was a preliminary question

to be tried, and that the plaintiff was not entitled to information which would be of no use at that trial because it could not help him to obtain a decree.

In sustaining the order allowing the desired discovery, the Appellate Court stated:

> "* * * As, however, the Defendant does not admit that interest amounting to not less than £5 per cent. per annum has been received, I think the Plaintiff is entitled to an answer to the question, what amount of income was received from the £6,000 by *Hexel Morgan* in 1873, and in every subsequent year. *That I think is material, in order that the Plaintiff, if the Court decides the question of trust in her favor, may be able at the hearing to obtain an immediate decree for payment of the* £6,000 *with such interest as the Court may consider her entitled to.*" (Italics ours.)

Brown v. *Evered & Company*, 21 R. P. C. 501 (1904, Scotland) was an action for the infringement of a patent. The summons asked for the discovery of the defendant's books and records which would show the number of portable aseptic surgical stands manufactured by them during the continuance of the Letters Patent and of the prices charged and of the profits made by them thereby, such stands being the alleged infringing articles. The summary of the facts and of the arguments in the report states:

> "*Inter alia* the Defendants' business books were called for. *These were wanted for the purpose of proving the amount of the damages or profits concluded for.* Counsel for the Defenders contended that the Pursuer must first prove the validity of his Patent and that there had been infringement; unless he proved this there would be no claim for damages or profits, and until it was proved the question of damages or profits did not arise." (Italics ours.)

Counsel for the plaintiff insisted that the discovery should be allowed because in Scotland it was the inva-

riable custom to take the whole proof at once. In sustaining the right to the discovery the Court stated:

> "The Defenders ask me to disallow the Specification *in toto* on the ground that the inquiry into profits and damages should be postponed until it is decided that the Pursuer's Patent is valid. I have no power to alter the interlocutor allowing proof; and I think I should be virtually altering it if I were to separate the proof allowed as to infringement from that as to damages or profits."

The opinion of the Court, Blackburn, Judge, in *Elkin v. Clarke*, 21 W. R. 447, states:

> "In this case it is unnecessary to decide the main question which has been argued and which arises under the following circumstances:—The action was brought to recover commission, and upon it two questions occur; one is whether the plaintiff has done work for the defendant so as to be entitled to recover anything; the other is, what should be the amount of the damages if he is entitled to recover something. If the cause were to go to trial, these things would in the ordinary course be determined at one and the same time, and any discovery as to the amount of damages would be too late afterwards. On the other hand, any such discovery granted before the question of liability was determined, must impose some trouble and annoyance upon the defendant, which would be entirely thrown away if the verdict was in his favor on the question of liability.
>
> The first point made by the defendant is, that, according to the rules which govern the courts of equity and of law, discovery is never granted to ascertain the damages until the right to damages is established. *Upon that point I express no opinion;* but what I do consider is this, that when the two questions can be severed, that should be done. According to the practice in equity, if a defendant chooses to separate the two questions by plea or demurrer, the question of damages is postponed until that of liability is settled; *if the defendant chooses to waive that opportunity, the general rule is that he must answer and make a discovery.* No doubt in

some cases where upon the answer it appears that the two questions can be separated, the court of equity has ordered it to be done. We are not bound to follow the rule of the courts of equity, but if we saw that their principle was sound and just we should apply it. In the present case defendant has offered to separate the two questions by letting that of liability go to a jury, and in the event of that being decided against him by referring the damages, granting to plaintiff an inspection of the documents he asks for. * * * It seems to me that, if the defendant consents to the reference, the inspection should not be granted, but I do not in any way decide the more general question."

Schrieber v. *Heyman*, 63 Law J. Rep. 749 (1894) was an appeal from a decision granting in part the plaintiff's application for the production of certain entries in the defendant's books. The action was brought to recover damages for wrongful dismissal and commissions earned under a contract appointing the plaintiff the sole agent for the sale of the defendant's goods in Great Britain and Ireland. The syllabus of the case states:

"*Where it is possible to deal separately with the questions of the liability of the defendant and of the amount of damages, the Court will not order the production of documents which will assist the plaintiff in establishing the amount of damages only, and which do not bear upon the question of the defendant's liability, until the question of liability has been determined.*"

The report of the case gives the following colloquy between the Court and counsel:

"*C. G. Ellis*, for the defendants.—The defendants ought not to be compelled to give inspection of their books until the question of liability is decided against them.

(Pollock, B.—How can the two questions of liability and of damages be severed? *Is not the plaintiff entitled to information as to the amount of damages before he goes to trial?*)" (Italics ours.)

Counsel for the defendant in this case apparently relied entirely on the decision in *Elkin* v. *Clarke* and the argument consisted of reading the opinion in that case. The opinion of the Court in allowing the appeal approved and followed the case of *Elkin* v. *Clarke*, and therefore it is apparent that the defendant in this case also offered to separate the issues of liability and of damages, and to consent to a reference for the ascertainment of the damages if the plaintiff secured a verdict on the issue as to the defendant's liability.

The only apparent and temporary conflict in the English law with reference to the propositions which have been stated hereinbefore was created by the opinion in *Adams* v. *Fisher*, 3 Myl. & Cr. 526. In that case the plaintiff alleged that the defendant Fisher, acting as his solicitor, had received various sums of money on account of an estate; that Fisher had failed to account for the sums received, and that by a fraudulent arrangement with the other defendant, Pinckard, Fisher had procured the execution of a power of attorney to Pinckard to collect the property and assets in question. The defendant Fisher denied that he had been retained by the plaintiff and alleged that he had acted solely as the attorney and solicitor for Pinckard, who had been authorized to represent the plaintiff, and that he had fully accounted to Pinckard on account of all the matters in question. The defendant Fisher admitted the possession of certain documents relating to the testator's estate and affairs, but submitted that he was not bound to produce them and that he was not accountable to the plaintiff. The court held that under the facts stated the plaintiff was not entitled to discovery as against Fisher, stating:

> "* * * Here the defendant has denied the plaintiff's interest; he has, on the record, stated that

which as it stands, in my opinion excludes the plaintiff from instituting this suit against him. As long as that stands, I think the plaintiff is not entitled to see the documents. (1)" (p. 549)

The effect of the decision in *Adams* v. *Fisher* and its inconsistency with the theretofore accepted rule that if a plaintiff answers at all, he should answer fully, is discussed at length in *Hare on Discovery*, Part IV, Chapter I, "Of The Rule in Chancery That a Defendant Who Has Submitted To Answer the Bill Mus. Answer Fully." (pp. 247-254)

Mr. Hare states that the cases in which the effect of *Adams* v. *Fisher* were discussed were those where the defendant had denied the title of the plaintiff and upon that denial had founded a refusal to set forth matters which would not establish the plaintiff's title but would be necessary to establish the extent of the claim if the title were established. The discussion then proceeds to illustrate how the full effect of the rule stated in *Adams* v. *Fisher* soon was obviated by the establishment of the practice of requiring that an answer should have the semblance of a plea, so that in practical effect the procedure thereon would be the same as though the defendant had filed a plea instead of an answer. The rule of *Adams* v. *Fisher* never was applied except when the issue of liability and the issue of damages could be tried separately.

In *Points in the Law of Discovery*, by Wigram, the author discusses the inconsistency in the decision in *Adams* v. *Fisher*, and in connection therewith clearly demonstrates the point which here is under consideration, namely, that the amount of the damages is an issue in the case in connection with which the plaintiff-respondent is entitled to discovery. Mr. Wigram states:

"154. In deciding whether a defendant shall be permitted by *answer* to protect himself against dis-

covery, in cases like *Adams* v. *Fisher*, the Court has four courses of practice open to it:—1, that of giving to the answer, to all intents and purposes, the force and effect of a demurrer or plea;—2, that of giving to the plaintiff the same full right of discovery before the hearing, as he would be entitled to, if his right to relief were admitted or proved, and the only question between the parties was the amount of his demand;—3, that of laying down some definite intermediate rule, by which the extent of a plaintiff's right to discovery, where by answer the defendant denies his right, may be determined;—and, 4, that of leaving the question undefined by any rule, except that which may be described as the 'discretion of the Court.'

155. With respect to the *first* of these courses, the author is not aware that it has ever been held in judgment, or suggested in argument, that a defendant can have the same full benefit of a defence by answer, as by demurrer or plea, in withholding discovery. In the case before suggested, of a bill for an account, if the defendant should plead the statute of limitations, or any plea in bar, he could not be obliged to give *any* answer to so much of the bill as related only to the plaintiff's original title to an account, for the plea would admit that. But, if he relied upon the same defence by answer, he would clearly (it is conceived) be bound to give a full answer to so much of the bill as related to the plaintiff's original title; for a defence by answer does not, even for the purposes of argument, admit any of the bill to be true, to which the admissions in the answer do not in terms apply. Again: in the case before suggested, of a bill for an account, the amount of the plaintiff's demand would be part of the '*plaintiff's case*.' If a release were pleaded, the plea would shut out all actual discovery, even an answer to the most simple and direct questions relevant to that amount. Now, it admits not of controversy, that if in the same case the defence be made by answer, the plaintiff may, by apt charges in his bill, compel the defendant to answer *specific* charges, stating or shewing the amount of the plaintiff's demand; and it is equally clear that a plaintiff,

who, by means of such specific charges, has got an admission with which he is satisfied, may take a decree at the hearing of the cause for the amount appearing by the answer to be due to him, instead of going to an account before the Master." (pp. 92-93-94)

* * * * *

"156. The *second* course above suggested, is that which the author had considered the rule of the Court prior to the case of *Adams* v. *Fisher*, but which that decision has undoubtedly displaced." (p. 95)

* * * * *

"158. First, as to principle. If a defendant who denies a plaintiff's right of suit may, as in *Adams* v. *Fisher*, insist by *answer* that he is not bound to give discovery upon points subordinate to the question of the plaintiff's title, (as the amount of his demand), some difficulty may reasonably be experienced in understanding how demurrers or pleas barring a plaintiff's right of suit should in practice have obtained a place among pleadings in equity. * * *" (pp. 95-96)

* * * * *

"159. In the cases which have most frequently, if not exclusively, given rise to discussions upon the point decided in *Adams* v. *Fisher*, the discovery against which the defendant has sought protection, has been discovery relevant only to the *amount* or *extent* of the plaintiff's demand, the validity of the demand itself being denied by the answer. It is certainly difficult to understand the principle, which, where the defence is by answer, denies the plaintiff's right to discovery material to the proof of the *amount* or extent of his demand. If the plaintiff may ask a decree at the hearing of the cause for payment of the amount admitted by the answer to be due to him, (which unquestionably he may do), and if, for the purpose of getting that admission, he may compel the defendant to answer specific questions applicable only to the amount of his demand (a power respecting which no doubt can exist), upon what principle shall he be denied discovery which

may be necessary to enable him to suggest those questions to the defendant, by means of which alone he can obtain the admission upon which a decree for immediate payment of his demand may be founded? The amount of the plaintiff's demand is a point in the '*plaintiff's case,*' upon which a decree may be made at the hearing. The admission of the defendant is evidence upon which that decree may be founded. Discovery from the defendant as to the account sought by the bill, and documents in his possession relevant to it, are material evidence by which the requisite admission may be obtained. Upon what principle can a plaintiff, who is permitted to make the immediate payment of his demand the subject of decree at the hearing of the cause, be deprived of any legitimate evidence by means of which the amount of that demand may be established? The effect of denying the plaintiff a right to such discovery, is either to deprive him of his right to a decree for payment at the hearing, or to compel him to take that decree upon imperfect evidence. In the case of a bill of discovery in aid of a trial at law, where the judgment upon the right and upon the amount of it, are contemporaneous, it would be difficult, if not impossible, to apply the rule." (pp. 97-98-99)

The technical rule of practice to the effect that a defendant must answer fully, if he answers at all, was changed by the Judicature Acts in England, and as is pointed out in the quotation from Bray on Discovery, which has been given hereinbefore, the present practice expressly provides that preliminary issues may be determined before a decision is given as to the right to discovery relative to the consequential issues. However, even before the passage of the Judicature Acts, the decision in *Adams* v. *Fisher* was disapproved by the opinion in *Swinborne* v. *Nelson*, 16 Beav. 416.

Swinborne v. *Nelson* was a bill for the infringement of a patent and which sought discovery as to all the alleged infringing articles manufactured by the defendants, of

the profits made thereby, of the names and addresses of the persons to whom sold, and of the prices at which sold. The defendant denied the novelty and utility of the plaintiff's invention and also denied infringement of the plaintiff's patent and claimed that the articles were manufactured in accordance with processes developed and patented by the defendant prior to the date of the plaintiff's patent. The defendant's answer claimed that the defendant was not bound to make the discovery sought by the bill and the plaintiff excepted to that part of the answer.

Counsel for the defendant argued that until the infringement of the plaintiff's patent had been decided the discovery sought by the bill would be immaterial and useless, relying on the cases which had held that where the title is denied, defendant is not bound to set forth the consequential accounts, relying especially on *Adams* v. *Fisher*.

The court stated that it was generally understood that *Adams* v. *Fisher* held as a broad principle that the right of a plaintiff to see documents in the possession of the defendants and relating to the subject matter of the suit, must depend upon the plaintiff's having established his right to relief in that suit or on a failure of the defendant to dispute that right, and that until the decision in *Adams* v. *Fisher* the rule always had been considered to be that if a defendant answers at all he must answer the whole of the bill after stating that all the authorities on the question had been carefully examined, the court stated:

> * * * I am disposed to believe, that, in truth, the decision in *Adams* v. *Fisher* was intended by Lord *Cottenham* to be limited to withholding the production only of the documents, which could not assist the Plaintiff in making out his title to the relief he sought; at least the observation made by

his Lordship, respecting the admission of Counsel to the question put by the Court, seems to point to this result. However this may be, the authorities which relate to the subject were not commented upon or brought to the attention of the Court; and after the most careful consideration which I am able to give to this subject, I am of opinion, that if the case of *Adams* v. *Fisher* goes beyond the point I have last suggested, it is not in accordance with the long line of authorities before decided in this Court. As I have therefore to choose between that case and other cases decided by equally high authority, I feel myself compelled to follow those which are, in my opinion, consistent with the principles upon which pleadings in equity can alone be safely and clearly established."

(3) English Opinions Relative to the Postponement of Consequential Discovery Until Preliminary Issues Have Been Determined.

As stated hereinbefore, the appellee-respondent in the *Munger Case* urged that the discovery sought by the appellant-petitioner in that case was premature because the issues of the validity of the petitioner's patent and of the infringement of the patent by the respondent had not been determined, and that it could not be known that it would be necessary to consider the question of the amount of the damages. In support of that proposition the appellee-petitioner in the *Munger Case* relied in its briefs on the following English authorities:

Rawes v. *Chance*, 7 Reports Patent Cases, 275, was an action for the infringement of a chemical patent for improvements in obtaining and treating sulphur. The defendant's answer denied infringement and the validity of the plaintiff's patent. An inspection of their plant and process was allowed by the defendants. The plaintiff then sought by interrogatories to obtain from the de-

fendants an inspection of their books containing tests or analyses of the materials operated upon in the processes carried on by the defendants at their works in alleged infringement of the plaintiff's patent.

The discovery sought by the interrogatories in question related to the issue of infringement. In holding that the interrogatories should not be answered until the validity of the plaintiff's patent, which had been denied, had been determined by the court, the court stated:

> "What we think we ought to do is this:—we ought to do what the Judge has really done, though he has not put it in his order, to refuse this application without prejudice to any application which the Plaintiff may make during the trial for the production of these analyses. Then that will enable full justice to be done. I do not express any opinion that it will be necessary in order to make out the Plaintiff's case, either as regards a good patent or infringement, that those should be produced, but if the Judge, having regard to the way in which the case is argued before him, thinks it is, then he will order production, *and then give such time as the Plaintiff will require in order that his experts may fully examine these analyses and ascertain what result is derived from them. In my opinion the appeal fails.*" (Italics ours.)
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> * * * * *
>
> "* * * *We must bear in mind that these Defendants are not shrinking enquiry. They are not taking the line, 'You shall not see anything;' they have thrown everything open which, in fairness, an honorable litigant can possibly desire to see. I am very much impressed with that, and I am not at all satisfied that the production of these things would be of the slightest use upon the preliminary question, Is the patent good or bad?* It may be, or it may not, on the other question of infringement. The two are very much mixed up together. The result of the whole of the argument and of the evidence, I think, is this: that the learned Judge was quite right and quite justified in saying, 'This discovery which you

now want is not material at this stage of the proceedings, and I will not make an order for it.' But I quite agree that we ought to protect the Plaintiff by adding that this order is without prejudice to any application he may make, in case it should be necessary at the trial." (Italics ours.)

* * * * *

"We ought to wait until we can be sure, if there is always an opportunity of doing it in time for the purposes of justice. *It would be otherwise if the Plaintiff was in this position that if he did not get it now he never could get it at all.* That is not true. At any stage of a litigation down to the trial, and in the middle of the trial, as soon as it becomes reasonably clear that this production will be wanted for the purposes of the Plaintiff's case—I assume that there is no other ground of protection open to the Defendants—we have not heard any—therefore, we need not discuss the question; but if it becomes necessary, and there is no other objection, then, at the trial, the learned Judge would be able to deal with this, and to do all that is necessary therefore to protect the interests of the Plaintiff. * * *" (Italics ours.)

Parker v. *Wells*, Law Rep. 18 Ch. Div. 477, was an action in which the plaintiff alleged that the defendant was a trustee for certain moneys and in which the plaintiff sought discovery, among other things, of the amount of the profits made by the employment of the money in trade. The defendant denied the trust and refused to answer the interrogatories. In holding that the defendant should not *at that time* be required to answer any of the interrogatories, the court stated:

"The first objection is to answering interrogatories 1 and 3. Now, in deciding whether discovery ought to be given, *we must first consider whether it will help the Plaintiff at the trial. If it will not, but will only be of use if the Plaintiff obtains a decree, then, having regard to the discretion given to the Court by Order XXXI, rule 19, we must consider whether it is fair that the Defendant should be*

obliged to give it at this stage of the proceedings, or whether to compel him to give it would be oppressive. As regards interrogatories 1 and 3, both those questions must be answered adversely to the Plaintiff." (Italics ours.)

* * * * *

Fennessy v. *Clark,* 37 Ch. D. 184 (1887) was an action for an injunction and for damages for false representations by the defendant that the shoe polish made and sold by the defendant was the polish made by the plaintiff, or in the alternative for an account of all sales of goods by the defendant with labels calculated to deceive the purchasers, and of all the profits from such sales. The plaintiff appealed from an order dismissing a summons for answers to interrogatories relative to the number of sales and to other facts bearing on the issue of the profits made by the defendant from the alleged wrongful acts.

The defendant contended that the discovery would be premature until after the plaintiff's title to relief and the defendant's liability had been established. This defendant also contended that even if the question of damages would be a question for trial under the order entered in the case, the rule against giving discovery with a view to the amount of damages to be possibly recovered, before any liability on the part of the defendant to pay damages had been established, should prevail. The court stated:

"The discovery asked for relates to what will be the amount of damages to which the Plaintiff would be entitled if he succeeds in establishing that the Defendant has been so acting as to entitle him (the Plaintiff) to damages or to an account of profits. The order of June last was not for trial of the action, but for trial of the questions of fact arising in the action. *Now, I do not say that the damage sustained by the Plaintiff is not a question of fact,* but is it a question of fact within the meaning of that order? At the time when the order was made the

Plaintiff had not elected to waive his account of profits. Would it then be right to allow the Plaintiff to get a jury to determine what damages he was entitled to before he has made his election between damages and profits? Should the jury award him a large sum for damages he would probably accept it, but if they gave him a small sum only, then he might say, 'No, I would rather have an account of profits, as I see by the Defendant's books that he has made a much larger sum.'

By 'questions of fact' I think that the order means questions of fact on which the Plaintiff's title to relief depends. (Italics ours.)

De La Rue v. *Dickinson*, 3 K. & J., 388 (1857) was a bill for an injunction to restrain the alleged infringement of a patent. The plaintiff sought by interrogatories to obtain an account of the alleged infringing machines in the defendant's possession; of the envelopes manufactured by such machines; of the sales of such envelopes, and of the profits made by the defendant by the use of the machines. The defendant by answer denied that the machines were similar in principle or action to those described in the plaintiff's specification, and claimed that for that reason answers to the interrogatories should not be required. In holding that the interrogatories should not be answered at that time, the court stated:

"In a patent case, if the Plaintiff once establishes the fact of infringement, *his right to a decree involving full discovery of all matters in the nature of those here inquired after, is clear;* everything therefore shewing, or merely tending to shew, the fact of infringement, must, of course, be set forth in the answer, to the full extent of the interrogatories. (Italics ours.)

* * * * *

"If, at the hearing, the Plaintiff's title to an injunction is clearly established, he will then be as clearly entitled to the whole of this discovery under the decree. But, even in that case, an answer will

not be necessary, because, without an answer, the Plaintiff will obtain all he seeks, in the ordinary course of the inquiry in chambers."

It is apparent from all of the authorities and opinions which have been referred to hereinbefore that there is no support whatsoever for the statements of the Circuit Court of Appeals for the Second Circuit in the *Munger Case* and in the *Loose Case* to the effect that the amount of damages is not an issue, that discovery is granted only in aid of the issues and that therefore discovery never is granted in aid of establishing the amount of the damages, and that the refusal of the Circuit Court of Appeals for the First Circuit to apply those statements to this case is fully supported by principle and authority.

(4) Decisions of Courts of the United States Which Have Allowed Discovery Relative to the Amount of Damages.

There are several opinions of the courts of the United States from which it is very apparent, although there is no specific discussion of the question in the opinions, that those courts have assumed and have held that under proper conditions and circumstances, a bill in equity may be maintained for the discovery of facts and of documents which relate to the issue of the amount of the damages recoverable in a pending action at law as well as to any other issue in the same action.

The opinion in the *Munger Case* states that no decision upon the precise question had been called to the attention of the court, although it was raised but not decided in *Colgate* v. *Compagnie Francaise Du Telegraphe De Paris A New York*, 23 Fed. 82. The *Colgate Case* was a bill of discovery in aid of a pending action at law in the same court for damages for the infringement of a patent,

the invention of which related to cable telegraphs. After stating the facts relative to the issues in the action at law the bill of discovery alleged (p. 82):

> "* * * that the complainant is unable to prosecute his action at law without a full discovery of the method of insulation of the said lines of cable telegraph, for the reason that such lines are under water and under the control of the defendant, and in localities unknown to the defendant, and are not open to his inspection; *and that he cannot prove with accuracy and completeness the damages that he has suffered by reason of the infringement without the discovery by the defendant* of the locality and length of said lines, the number of the conducting wires composing said lines, and without the inspection of certain contracts in defendant's possession which disclose the mode and materials of the construction of its cables; all of which matters and things are solely within the knowledge of the defendant, and unknown to the complainant. * * *" (Italics ours.)

It is clearly apparent from the above statement that a primary object of the bill of discovery in the *Colgate Case* was to secure evidence which related solely to the amount of the damages in the action at law for infringement. In a careful and exhaustive opinion Judge Wallace overruled a demurrer to the bill of discovery, and it appears from his opinion that he could not have entertained any doubt as to the right of the plaintiff in that case or in any proper case to obtain discovery as to facts and as to documents which relate to the issue of the damages as well as to the other issues in an action.

Guyot v. *Hilton*, 32 Fed. 743, was an application under Section 724 to require the plaintiff to produce for the inspection of the defendants, in order to enable them to prepare for trial, all the business books of the firm for which he was the official liquidator. The discovery sought in that manner very apparently related almost entirely to the amount of the damages recoverable in the

action. Judge Lacombe denied the application, and, following the decision of Judge Wallace in the *Colgate Case*, held that the proper practice to obtain such relief is by bill of discovery. *Guyot* v. *Hilton* is quoted and approved in the opinion of this Court in *Carpenter* v. *Winn*.

In *Pressed Steel Car Company* v. *Union Pacific Railroad Company*, 240 Fed. 135 and 241 Fed. 964, the court sustained the right of the plaintiff to maintain a bill of discovery in aid of an action at law for the breach of a contract. In the statement of the case the court summarized the allegations of the bill of discovery as follows (p. 136):

> "* * * The bill also alleges that the plaintiff cannot safely prosecute the action without full discovery in respect of all freight cars built for it or its subsidiaries during the period of the contract, of the drawings which show the construction of such cars, the specifications and contracts for their construction, the bids submitted by all bidders for such contracts. The contract provided that the plaintiff should have all contracts for such construction in which its bids were not more than $10 per car above the lowest bidder, and the plaintiff sues for its lost profits on such contracts. This claim is the basis for asking for such bids and contracts. Appropriate interrogatories are annexed to the bill to call forth this information."

It is clearly apparent from the above statement and from the interrogatories which were annexed to the bill that the discovery which was sought by the plaintiff in the *Pressed Steel Car Company Case* related very largely to the issue of the amount of the damages recoverable by the plaintiff.

Safford v. *Ensign Manufacturing Co.* 120 Fed. 480, was an appeal from an order dismissing a bill for relief and for discovery. The bill alleged a license agreement for the use by the defendant of a certain patented

device on cars manufactured by the defendant, and an agreement to make reports and to pay quarterly royalties at the rate of $2 per car. The bill alleged that the device had been used on many cars, but that reports had not been made and royalties had not been paid, and prayed for a discovery of all the transactions had under and relating to the license agreement and for a decree for the amount found due as royalties. The plaintiff contended that as the court of equity had jurisdiction for the purpose of enabling the plaintiff to obtain discovery, it should retain jurisdiction for the purpose of affording complete relief. The defendant contended that the remedy at law was complete and adequate, as the claim was only for money due under a contract, and that Section 724 of the Revised Statutes made it unnecessary for the plaintiff to resort to equity to obtain the defendant's books or other writing which contained the desired information.

The Circuit Court of Appeals for the Fourth Circuit adopted the opinion of the trial court as its opinion. That opinion states:

> "'In reality, what is wanted here is rather a discovery than an account. Undoubtedly, *a simple bill for a discovery might have been sustained* in aid of a suit brought or to be brought at law, unless section 724, Rev. St. (U. S. Comp. St. 1901, p. 583), renders such bill unnecessary.'" (Italics ours.)

It is clearly apparent that the discovery sought by the plaintiff in the *Safford case* related exclusively to the issue of the amount of the damages recoverable by the plaintiff, and that both the Circuit Court of Appeals for the Fourth Circuit and the District Court of the United States for the Southern District of West Virginia, expressly held that discovery relative to the issue of the amount of damages should be allowed in a proper case

when sought by a bill of discovery in aid of an action at law.

(5) Opinions of State Courts Which Have Allowed Discovery Relative to the Amount of Damages.

McKinnon-Young Company v. *Stockton and Lane*, 55 Fla. 708, 46 Sou. 787 (1908) was an appeal from an order in an action instituted by a petition which alleged a wrongful and unwarranted trespass upon certain properties, and a wrongful and unauthorized conversion of said properties or parts or proceeds thereof. The order, entered on an application of the plaintiffs, required the defendants to state and discover the turpentine, rosin, naval stores and other products, if any, taken by them from the trees on the lands described in the petition, and the amounts and values of said turpentine, rosin, naval stores and other products, if any, so taken from those lands. The principal reason assigned as error in making the order in question was:

> "(5) Because no order as to discovery should be made until the equities of the case have been settled after answer by defendants, and said order is erroneous in so far as it calls for a discovery prior to the settlement of the equities in the controversy."

With reference to that principal question on the appeal the court stated:

> "* * * Such discovery upon the appellants' part is proper in order to advise the court of the extent, if any, of their interference with the properties in the custody of the court, and becomes necessary in order to enable the court intelligently to redress the injury, if any has been done. Because they are required as part of their answers to such petition to discover the *quantity* and *value* of the property taken by them, if any, from said lands, is by no means a prejudgment of their liability therefor to such receivers. Such *liability* will be a ques-

tion to be determined in the ultimate trial of the proceeding upon the petition, answers and proofs submitted thereon."

Wells v. *Holman*, 115 S. C. 443, 106 S. E. 224 (1921), was an appeal from an order requiring the defendant to produce his books and papers. The order in question was entered in an action for the recovery of an agreed percentage of the net profits of certain farming and mercantile operations. The Court held that the plaintiff was entitled to an inspection of the books, documents and papers made by or for the defendants in the ordinary course of the farming and mercantile operations in question and which would show the facts and figures upon which a settlement between the parties necessarily would be based. The Appellate Court held that the order was justified under Section 427 of the South Carolina Code which provides for the inspection on motion of books, documents and papers "containing evidence relating to the merits of the action or the defense therein". The term "relating to the merits" does not appear to be any more broad than the term "issues in the case" and therefore this opinion of the Supreme Court of the State of South Carolina is direct authority for the right to have discovery of facts and of documents which relate solely to the amount of damages recoverable in an action.

Sherwood Bros., Inc. v. *Yellow Cab Company*, 283 Pa. 488, 129 Atl. 563 (1925) was an appeal from an order dismissing a bill for discovery in aid of a pending action at law for an alleged breach of a written agreement by the defendant to purchase from the plaintiff all the motor fuel consumed by the defendant in the conduct of its business in Philadelphia. The bill in equity alleged that discovery was needed of the extent of the defendant's business during the period specified in order

to prepare a proper statement of claim in the action at law. In reversing the order dismissing the bill of discovery and remanding the cause with directions that a decree be entered, requiring the defendant to make full and complete answers to those interrogatories, the Appellate Court stated:

> "* * * By Section 13 of the Act of June 13, 1836, P. L. 784, 789, it is provided that equity shall have jurisdiction 'so far as relates to * * * the discovery of facts material to a just determination of issues, and other questions arising or depending in the said courts.' As applied to the pending case, this means facts which will be 'material' in the trial of the suit at common law. No other meaning has ever been given to the word 'material,' when referring, as here, to the obtaining or production of evidence, whether at the trial, or by bills of discovery, depositions, commissions or letters rogatory. In all such instances, facts are 'material' which tend to establish any of the issues raised, although each of them may be but weak links in the chain of proof leading up to the recovery sought. The statute does not otherwise limit the right to have discovery of such material facts; nor do the courts, unless it should clearly 'appear on the face of such a bill that the claim * * * in aid of which discovery was sought, could not be maintained because forbidden by law, or contrary to public policy, or for other such conclusive reason': *Lesser* v. *Henry*, 50 Pa. Superior Ct. 440, 443.
>
> Since plaintiff is seeking, by its action at law, to recover damages for defendant's failure to purchase, between the dates specified, all the motor fuel used in its Philadelphia business, necessarily a knowledge of the extent thereof, as inquired of in the first two interrogatories, is most 'material,' for otherwise it can neither properly prepare its statement of claim, nor successfully prove its case at the trial. * * *"

Southern Bag & Burlap Company v. *Boyd*, 38 S. W. (2d) 565, (Texas 1931), was decided on an application

for a writ of mandamus. The principal question under consideration by the Appellate Court was whether the lower court properly had entered an order for the production of certain books and records. That order was entered on an application of the plaintiff in an action for commissions alleged to be due on the sale of certain products manufactured and sold by the defendant. The application set forth that the defendant was in possession of all the books and records containing all information relative to such sales and showing the amount of the commissions earned by the plaintiffs and that the plaintiffs had no way of proving the amount of the commissions to which they were entitled without the production of those books and records. In sustaining the order for the production of the books and records, the Appellate Court stated:

> "(2, 3) It is the settled law of this state that respondent had jurisdiction in the premises to make a proper order to the end that plaintiffs might get the information here sought from the books and records of relator, and this court will not interfere unless there is an abuse of the trial court's discretion. *Rush* v. *Browning, District Judge,* 103 Tex. 649, 132 S. W. 763, 765.

* * * * *

Brown v. *E. H. Clement Company,* 203 N. C. 508, 166 S. E. 515, was an appeal from an order for the examination of certain officers and employees and of the books and records of the defendant. The action in aid of which the discovery was ordered was to recover on a contract for the payment by the defendant of a certain percentage of the profits made on certain construction work. The discovery was sought solely to ascertain the exact amount to which the plaintiff claimed to be entitled under the contract. The discovery was allowed prior to the filing of the complaint in the action in accordance with the provisions of the North Carolina Stat-

ute. In dismissing the defendant's appeal the Court stated:

> "* * * The contention of the defendant that no examination of its officers and employees, or of its books and records, should be had, until the issue raised by its denial of the contract as alleged by the plaintiff has been tried and determined favorably to the plaintiff, cannot be sustained. * * *"

In New York, bills of discovery in aid of other actions have been abolished by Statute, and the Code of Civil Procedure, Section 803, of that State provides that Courts of Law may direct the production for inspection before trial of books, documents and other papers "relating to the merits" of the action. In *Hofman* v. *Seixas*, 33 N. Y. Supp. 23 (1895) the Court held that discovery is allowable in an action at law, in order to enable the plaintiff to ascertain the amount for which he should demand judgment. *Hofman* v. *Seixas* was an action on an agreement entitling the plaintiff to a percentage on purchases by the defendant. The plaintiff's motion set out that he had no means of knowing what purchases were made by the defendant, and so was unable to state the amount to which he was entitled, and the order required the defendant to permit the plaintiff to inspect the ledger and sales books containing entries in reference to the purchases by the defendant. The opinion of the Court quoted *Veiller* v. *Oppenheim*, 26 N. Y. Supp. 1051, as follows:

> "In an action at law it will be necessary for the plaintiff to state the amount which he seeks to recover, and, unless such amount can be ascertained from an inspection of the books, plaintiff will not be in a position to know just what sum he is entitled to sue for."

White v. *Wilson*, 37 N. Y. Supp. 193, was an action to recover royalties on the productions by the defendant of a libretto. In affirming with modifications an order

denying a motion to vacate an order for examination before trial, the Court stated:

> "The only point upon which the plaintiff really requires the testimony of the defendant is with regard to the number of representations given by the latter of the rival versions of his assignor's librettos. The plaintiff cannot know the facts on this head, nor has he the means of readily proving them. The defendant, of course, knows just when and where the productions in question were given. If the plaintiff is right in his general contention, he will be entitled to the specific sum of $50 per week for every week during which the defendant produced other adaptations of the pieces already adapted by plaintiff's assignor under the contracts sued upon. The examination should, however, be limited to this one specific subject."

Burns v. *Lipson*, 204 N. Y. App. Div. 643 (1923) was an action for damages by reason of the plaintiff's discharge from the defendant's employ. The complaint alleged a contract of employment whereby the plaintiff was entitled to 15 per cent of the net profits earned in the business during the year. On the appeal from an order granting a motion of the plaintiff, which prayed for a discovery and inspection of certain books and papers of defendants alleged to contain entries on the subject matter of the profits earned by the defendants in their business, and which also alleged that it would be impossible to prove such profits without a prior discovery and inspection, the Court stated:

> "I think the motion for discovery was properly granted. It seems to be settled even under the Code of Civil Procedure that in an action of this character plaintiff is entitled to discovery where the application therefore is in good faith to enable him to prove net profits which under his contract of employment he is entitled to share. (*Thomas* v. *Waite Co.*, 113 App. Div. 494; *Webb* v. *Hedge Co.*, 133 id. 420; *Aprea* v. *Cipolla*, 187 id. 894; *Gemson* v. *Perreault*, 201 id. 649.)

In *Bell* v. *Gilbert Paper Co.* (117 Misc. Rep. 610; affd., 201 App. Div. 867) it was held that under the Civil Practice Act and rule 140 of the Rules of Civil Practice the former provisions of the Code and General Rules of Practice requiring plaintiff to show materiality and necessity no longer obtain, and that the burden of showing that the discovery and inspection was not necessary was upon the adverse party. In that case it is said: 'Books and documents are, therefore, permitted to be discovered and inspected * * * as justice requires, providing they relate to the merits of the action.' The order for discovery and inspection should be affirmed."

(6) The Inconsistency Between the Opinion in the Munger Case and the Opinion of This Court in Carpenter v. Winn.

Carpenter v. *Winn*, 221 U. S. 533, was an action at law in which the plaintiff obtained an order from the trial court which required the defendants to produce before the trial of the action certain books and papers said to contain evidence material to make out the plaintiff's case. The order in question required the defendants to produce "all of their books, papers, writing, account books, day books, blotters and journals, registers, cash books, check books, contracts, contract slips and memoranda, made or received by them, their agents and employees, which contain any memoranda or any business transaction" relating to the plaintiff during the years 1905 and 1906 and particularly pertaining to a certain brokerage transaction in cotton. (p. 534)

The defendant insisted that it should not be required to produce the evidence specified in the order prior to the trial of the action at law and judgment was entered by default in favor of the plaintiff.

In the opinion by Mr. Justice Lurton, this court stated:

"The question is whether, under § 724 of the Re-

vised Statutes (U. S. Comp. Stat. 1901, p. 583), a court of law may compel one party to an action to produce, in advance of the trial, books and papers for examination and inspection of his adversary.

Section 427 is substantially the 15th section of the judiciary act of 1789 (1 Stat. at L. 82, chap. 20, U. S. Comp. Stat. 1901, p. 583). It reads as follows: 'In the trial of actions at law, the courts of the United States may, on motion and due notice thereof, require the parties to produce books or writings in their possession or power, which contain evidence pertinent to the issue, in cases and under circumstances where they might be compelled to produce the same by the ordinary rules of proceeding in chancery. * * *'

The purpose of the provision is to provide a substitute for a bill of discovery in aid of a legal action. It may be invoked only when the document sought 'contains evidence pertinent to the issue,' and 'in cases and under circumstances when they might be compelled to produce the same by the ordinary rules of proceeding in chancery. * * *'' (p. 537) (Italics ours.)

* * * * *

''b. 'In the trial' implies a restricted use of the procedure as compared to a bill of discovery.

Under the ordinary rules of procedure in chancery to obtain a discovery of evidence material to the maintenance or defense of an action at law, such evidence must, in the very nature of things, result in production before the 'trial' at law. Such procedure is still open *if it is desired* to have the evidence produced before the trial. A court of equity does not lose its jurisdiction to entertain a bill for the discovery of evidence or to enjoin the trial at law until obtained, because the powers of the courts of law have been enlarged so as to make the equitable remedy unnecessary in some circumstances. See the very instructive discussion of the question by Judge Wallace in *Colgate* v. *Compaignie Francaise du Telegraphe*, 23 Blatchf. 86, 23 Fed. 82. (Italics ours.)

The statute may therefore be well regarded as affording a short and quick way of obtaining docu-

mentary evidence for use 'in the trial' of an action at law, leaving the parties to a bill of discovery *if they desire the production before the trial for the purpose of preparing for it.* (pp. 539- 540) (Italics ours.)

* * * * * * *

* * * The party against whom such an order is sought has the undoubted right to make every objection which he could make were he a defendant in equity to a bill seeking discovery of the same evidence; *for the right to compel production is no broader under the statute than under a discovery proceeding in equity.* This would include the right to insist that the case, the circumstances, and the purpose to be advanced, were not such as to justify the order. He must also be heard, if he desires, upon the pertinency of the evidence which is being sought, and the right to insist that he be not required to disclose that which pertains only to his side of the case, but only that which is material to make out the case of the party seeking the order." (Italics ours.)

The above statements in the opinion of this court in *Carpenter* v. *Winn* were not quoted or referred to by the Circuit Court of Appeals for the Second Circuit in the opinion in the *Munger Case.* The respondent respectfully submits, however, that the opinion in *Carpenter* v. *Winn* authoritatively determines that the respondent is entitled to maintain its bill in equity for the discovery by the petitioner of documents which relate solely to the issue of the amount of the damages recoverable in the pending action at law in aid of which the discovery is sought. Although, of course, *Carpenter* v. *Winn* relates only to the production of documentary evidence, the right of the plaintiff to secure the admission of material facts relative to the same issue by means of the defendant's answers to interrogatories, in accordance with the well established principles of equity relative to dis-

covery, must be equally as broad and as unlimited as to the right to secure the inspection of documents.

It is apparent from the statement of the facts in *Carpenter* v. *Winn*, that the books, records, memoranda and other documents which the defendant therein was required to produce by the order entered by the District Court under Section 724, related almost exclusively, if not exclusively, to the question of the damages recoverable by the plaintiff in that action at law. The statements in the opinion which are quoted above, therefore clearly and necessarily imply that this court held that that evidence relative to the issue of the amount of the damages recoverable, properly could have been secured in advance of the trial by a bill in equity for discovery in aid of the pending action at law, provided only that it was reasonably necessary or desirable to secure such production prior to the trial rather than at the trial.

Section 724 of the Revised Statutes (28 U. S. C. Sec. 636) has for its purpose the provision for discovery in actions at law of the kind obtainable, in equity cases, by proper proceedings in equity. *Carpenter* v. *Winn, supra,* directly so held. *Carpenter* v. *Winn* held that Section 724 requires the production of books or writings *only in cases and under circumstances where a party might be compelled to produce the same by the ordinary rules of proceeding in chancery.*

Therefore, if the respondent has the right under Section 724 to secure the production of the documentary evidence specified in the interrogatories here under consideration, *at the trial* of the pending action at law in aid of which this proceeding in equity was instituted, the respondent must have the right to maintain its bill in equity for the discovery of the same documentary evidence *prior to the trial,* provided only that the bill in

equity for discovery sufficiently alleges such circumstances and conditions as make it reasonably necessary or desirable to secure the production prior to the trial, for the purpose of preparing for it, rather than at the trial. The allegations of the bill in equity for discovery herein clearly satisfy that requirement.

Conversely, if the respondent does not have the right to maintain its bill in equity for discovery, because the documentary evidence specified in the interrogatories is relevant and material only to the question of the amount of the damages to which the respondent is entitled, the respondent cannot have the right to secure the production of the same documentary evidence at the trial under and in accordance with Section 724, because Section 724, in accordance with its express provision, only is applicable "in cases and under circumstances where they (the parties) might be compelled to produce the same by the ordinary rules of procedure in chancery" by which of course must be meant the ordinary rules of procedure in chancery by Bill of Discovery, and because this court stated in *Carpenter* v. *Winn* that the purpose of "the provision (Section 724) is to provide a substitute for a Bill of Discovery in aid of a legal action."

For the reasons stated above, it is certain that the discovery which may be obtained by motion and notice under Section 724, must be identical *in its scope* with the discovery which may be obtained by a Bill of Discovery. The only difference between the two methods of obtaining discovery is that a Bill of Discovery must be used if it is necessary or desirable to obtain discovery prior to the trial rather than at the trial, whereas a motion under Section 724 is the proper manner of securing discovery at the trial.

The petitioner, the Sinclair Refining Company, is

very inconsistent when it insists that the respondent has a plain, adequate and complete remedy at law to secure the production of the documentary evidence which it requires by proceeding under Section 724, without admitting that the respondent has the same right to secure that material by its bill in equity for discovery, provided only that the allegations of the bill in equity disclose that it is reasonably necessary or desirable to secure the production prior to the trial rather than at the trial.

The respondent respectfully submits that the identity between the scope of the relief obtainable by way of the production of documentary evidence under Section 724, and by a bill in equity for discovery, clearly demonstrates that there is no merit whatsoever to the contention that discovery in equity should not be allowed either as to facts or as to books and writings which relate to the question of the amount of the damages which are recoverable in any action in aid of which discovery is sought.

II.

The Opinion of the Circuit Court of Appeals for the First Circuit in This Case Does Not Conflict With the Opinion of the Circuit Court of Appeals for the Seventh Circuit in Bradford v. Indiana Harbor Belt Railroad Company on the Question of What Constitutes a Sufficient Showing of Necessity for Discovery in Aid of an Action at Law.

The petition for certiorari herein alleges (p. 14) that there is a conflict between the decision of the Circuit Court of Appeals for the First Circuit in this case and the decision of the Circuit Court of Appeals for the Seventh Circuit in the Bradford case, arising out of a dif-

ference of opinion as to when the requirement of a sufficient showing of necessity for discovery has been met. In any event, this alleged conflict relates only to different opinions as to the sufficiency of two entirely different sets of facts to meet the objection in each suit that the bill of discovery therein could not be maintained because the plaintiff had a plain, adequate and complete remedy at law, and does not relate to any conflict of opinion as to the applicability of the legal principles in accordance with which the cases were decided.

The Circuit Court of Appeals for the Seventh Circuit in *Bradford* v. *Indiana Harbor Belt Railroad Company*, 300 Fed. 78, sustained a decree dismissing a bill of complaint for discovery in aid of an action at law for damages alleged to be due to the plaintiff of seventy-five cents for each car and of one dollar for each locomotive moved over a railroad on the plaintiff's property. The bill of discovery alleged that the material issue in the suit at law was the occupation and *extent of the use* of the property by the defendant and the amount it charged and received therefor; that the defendant kept books of account and had papers and documents showing the *extent of the use* of the tract; and that the plaintiff had no means of ascertaining such facts except through the answers to the interrogatories appended to the bill. It is clearly apparent, therefore, that the discovery sought in the *Bradford Case* related almost exclusively, if not exclusively, to the question of the amount of the damages to which the plaintiff might be entitled in his action at law. It furthermore is clearly apparent that the plaintiff in the *Bradford Case* did not allege any facts whatsoever in the bill of discovery from which the court could have determined that there was no plain, adequate and complete remedy at law under Rev. Stat., Sec. 724 (28 U. S. C.,

Sec. 636), in that the desired evidence could not be obtained in a practically useful way under that statutory provision.

No bill in equity for discovery or for any other purpose can be maintained when there is a plain, adequate and complete remedy at law. *Scott* v. *Neely*, 140 U. S. 109; *Safford* v. *Ensign Manufacturing Company*, 120 Fed. 480; Rev. Stat., Sec. 723, (28 U. S. C. A. Sec. 384 and cases cited, notes 2 to 6 inclusive). The opinion of the Circuit Court of Appeals for the First Circuit in this case, after first holding that bills for discovery still lie in the federal courts, and that they have not been superseded by Section 724 of the Revised Statutes, stated that:

> "It devolves upon the party filing such a bill to show that there is real need of it and that the desired evidence can not be obtained in a practically useful way under Sec. 724." (R. 82.)

After a full discussion of the discovery sought by the bill in equity for discovery herein the court further stated that:

> "On the facts stated in the bill we think the plaintiff has made out a case warranting discovery along the lines above indicated." (R. 86.)

It therefore is apparent that the Circuit Court of Appeals for the First Circuit, having considered the allegations of fact in the bill in equity for discovery herein, determined that those facts satisfy the requirements stated by the court, and that the court found as a fact that the respondent would not have a plain, adequate and complete remedy at law by attempting to secure the same facts and documents by a proceeding under Section 724.

The Circuit Court of Appeals for the Seventh Circuit sustained the decree dismissing the bill of discovery in

Bradford v. *Indiana Harbor Belt Railroad Company* for the three following reasons:

> First, that if the ascertainment of the facts would be simple and would not involve complex and voluminous accounts, the ordinary processes of law would be sufficient and the extraordinary relief by discovery in equity would be entirely unnecessary, and that the plaintiff could invoke Sec. 724 of the Rev. Stat. and it would not be presumed that the District Court would deprive him of a reasonable opportunity to examine the books and documents before the trial was concluded. (300 Fed. 78, 80.)
>
> Second, that if it would be complicated, difficult and costly to establish the facts sought by the discovery, that condition was due entirely to the plaintiff's own carelessness or neglect of his rights so that it would not be equitable to permit him to impose on the defendant the expense and burden of making up the desired account. (p. 80)
>
> Third, that the defendant in its brief and argument had tendered to the plaintiff all the benefits of the Indiana Statutes with reference to the production of books and papers in advance of the trial for inspection by the opposite party, so that in effect the defendant voluntarily had offered to the plaintiff everything the plaintiff could have secured by answers to his interrogatories. (p. 81)

It is clearly apparent that no one of the reasons stated by the Circuit Court of Appeals for the Seventh Circuit for sustaining the decree of the trial court in *Bradford* v. *Railroad Company*, has any bearing whatsoever on any question here under consideration. If the Circuit Court of Appeals for the Seventh Circuit had entertained any idea whatsoever that the subject matter of the discovery sought by the plaintiff was improper because it related to the ascertainment of the amount of the damages, the court certainly would have so stated in its opinion, and probably would have made that fact the principal reason for affirming the decree. Finally, with reference to the third reason for the decision in the *Bradford Case*, the

petitioner herein, the Sinclair Refining Company, never in any way has offered to facilitate the respondent's preparation of any part of the evidence necessary to maintain the pending action at law in aid of which this proceeding in equity was instituted.

The petitioner's brief in support of the petition for certiorari (pp. 16, 17) argues that the only specific allegations in the respondent's bill in equity for discovery as to the necessity for discovery prior to the trial rather than at the trial, relate only to the requests for discovery as to the number of barrels of gasoline produced in and as to the number of barrels of oil charged into the petitioner's Isom cracking stills; that the court held that discovery as to those matters should not be allowed at the present time; and that, therefore, the bill should have been dismissed on the ground that it does not allege facts which affirmatively show that the discovery ordered by the Circuit Court of Appeals for the First Circuit should be allowed in advance of the trial.

The fifth ground stated in the petitioner's motion to dismiss the bill in equity for discovery herein was that the respondent has a clear, plain and adequate remedy at law. (R. 33.) As stated in the petition for a writ of certiorari herein, (p. 5), the objection that the Jenkins Company has a clear, plain and adequate remedy at law was not passed upon by the District Court. The petitioner did not move to have the District Court correct what the petitioner now alleges to have been error; the petitioner did not except to that alleged error or take any appeal to the Circuit Court of Appeals for the First Circuit on account of that alleged error, and the petitioner did not urge before the Circuit Court of Appeals for the First Circuit that the motion to dismiss should have been granted on the ground that the respondent has

a plain, adequate and complete remedy at law in that the facts alleged in the bill in equity for discovery herein do not establish that the respondent has any reasonable necessity or desire to have the discovery before the trial of the pending action at law rather than at the trial of that action.

Even if the petitioner's contention with reference to the interpretation of the allegations of the bill in equity for discovery herein is sound, the issue nevertheless is immaterial, as the respondent clearly would have been entitled to leave to amend the bill in order to supply any deficiency or any incompleteness in the jurisdictional allegations, if the District Court had sustained the motion to dismiss on the ground that the bill in equity for discovery herein does not sufficiently allege facts from which the court could determine that there is a real need for the discovery prior to the trial and that the desired evidence cannot be obtained in a practically useful way under Section 724.

However, the bill in equity for discovery alleges in paragraph 6 that the respondent cannot safely proceed to the trial of the action at law and cannot prove with any degree of accuracy and completeness at the trial the damages which the respondent has suffered by reason of the petitioner's breach of the contract, without the discovery sought by the bill (R. 4), and in paragraph 7 that the facts and documents concerning which discovery is sought are exclusively within the knowledge and exclusively and solely in the possession of the petitioner; that those facts and documents are material to the support of the respondent's case as stated in the declaration in the action at law, and that those facts and documents are not available to the respondent without the assistance of the court of equity. (R. 5.)

Furthermore, the statement in the opinion of the Circuit Court of Appeals for the First Circuit that facts as to the nature of the invention, its place in the art to which it relates, the step which the inventor took, and the change which it effected in the practice of the art, may be supplemented by opinion evidence of value, (R. 85), clearly indicates that an inspection of the drawings showing the particular character, type and construction of the petitioner's Isom cracking stills must be had prior to the trial in order that the respondent's experts may have an adequate opportunity to familiarize themselves as to the facts concerning which they will testify.

III.

The Decision of the Circuit Court of Appeals for the First Circuit That the Respondent Is Entitled to Introduce Evidence Such as Is Sought by the Bill of Discovery Herein as to the Results of the Isom Application and as to the Commercial Utility of the Invention of the Isom Patent as Shown by Its Use in the Oil Cracking Art or Industry Is in Accordance With the General Principles of Law.

The petitioner, the Sinclair Refining Company, consistently has endeavored in the District Court, in the Circuit Court of Appeals, in its brief in support of its petition for a writ of certiorari, and now in its brief for petitioner, to secure limitations on the respondent's right to introduce evidence on the issue of the damages which the respondent has suffered on account of the petitioner's breach of the contract of October 2, 1916, which, if established, certainly will make it very difficult if not impossible for the respondent to introduce evidence which will entitle the jury to return a verdict for any-

thing more than nominal damages, no matter how large the respondent's actual damages may have been. Briefly summarized, the petitioner's contentions and the results on the trial of the pending action at law if those contentions shall be sustained are as follows:

Any breach of the contract of October 2, 1916, occurred on September 10, 1917, when Edward W. Isom filed his application on which United States Letters Patent No. 1,285,200 later issued and when he assigned that application to the petitioner; the only measure of the damages for that breach of the contract is the *market value* of that patent application as of that date, and no evidence as to any matters or things of any later date can be introduced at the trial of the action at law even for the purpose of assisting the jury to ascertain the *market value* of that application as of that date

Those contentions, if sustained, would preclude the respondent from introducing at the trial of the pending action at law, not only all evidence as to the matters and things of which discovery is sought herein, but also all evidence of every kind and nature whatsoever as to the actual and practical utility and value of the inventions of the Isom patent as established by the construction and by the operation and by the extent of the operation and by the economy and the efficiency of the operation of cracking stills embodying those inventions, whether constructed and operated by the petitioner or by the respondent or by any other persons or corporations. Under those conditions, practically the only evidence which the respondent would be allowed to introduce to establish the value of the Isom application or patent as the measure of the damages to which the respondent is entitled, would consist of the purely theoretical and speculative opinions of experts based solely on a study of the

patent application and of the state of the art as of the date that application should have been assigned to the respondent.

The petitioner's contentions, if sustained, would place an unreasonably narrow construction on the contract of October 2, 1916. The important provision of that contract is that *any improvements, whether of a mechanical nature or in the process,* developed by the petitioner's engineers and experts in familiarizing themselves with the Jenkins apparatus and process, *should accrue to the Jenkins Company.* The provision with reference to the assignment to the Jenkins Company of any application filed to protect any such improvement is a subordinate provision of the contract which merely specifies one means for carrying out the principal provision. The respondent, therefore, should be permitted to introduce any and all evidence which is relevant and material on the issue of the *value of the inventions* for which Letters Patent of the United States were issued to the Sinclair Company as the assignee of Edward W. Isom, and the consideration of the jury should not be limited to the question of the *value of the application for a patent* which was filed by Edward W. Isom on September 10, 1917, and on which Letters Patent No. 1,285,200, dated October 19, 1918, thereafter issued. In accordance with the petitioner's contentions, however, the jury would be limited to the purely speculative inquiry, first, as to whether any patent would issue on the basis of the original application filed by Edward W. Isom, and if so, as to the scope that patent would have and as to the inventions that would be covered thereby, and second, as to the commercial value of the patent, the scope and the fact of the issuance of which would depend upon the result of the first speculative inquiry. Both those inquiries, of course, in accordance with the petitioner's conten-

tions, would be made entirely from the viewpoint of September 10, 1917, and all actual facts, and all actual knowledge derived from any matters and things of any later date than September 10, 1917, would be disregarded and would be kept from the consideration of the jury.

We submit that those contentions are not sound, but that on the contrary, all the applicable principles of law have the purpose and the effect of assisting the jury to learn and to consider all the facts, circumstances and conditions which are directly pertinent to the questions submitted for its consideration and verdict.

The fundamental questions which will be submitted to the jury for its decision at the trial of the pending action at law are, first, did the petitioner breach the contract of October 2, 1916, by failing and refusing to assign the Isom application or patent or the Isom invention to the respondent, and second, if the first question is answered in the affirmative, in what amount has the respondent been damaged by that breach of the contract by the petitioner?

The opinion of the Circuit Court of Appeals for the First Circuit reasonably holds that under the conditions existing in the pending action at law the rule of the market value is not applicable as the measure of the damages to which the respondent is entitled, stating:

> "An application for a patent, being a thing *sui generis*, has no 'market' value in the strict use of that term. *Standard Oil Co.* v. *So. Pacific Co.*, 268 U. S. 146; *United States Frumentum Co.* v. *Lauhoff*, 216 Fed. 610 (C. C. A. 6). Its money value may be estimated from the nature of the invention disclosed, its place in the art to which it relates, the step which the inventor took, and the change which it effected in the practice of the art. These facts, and other relevant circumstances, may be supplemented by

opinion evidence of value, as in the case of real estate. *Montana Ry. Co.* v. *Warren,* 137 U. S. 348.

We do not think that a court, valuing in judicial proceedings an invention described in an application for a patent, is obliged to shut its eyes to the result of the application, nor to the commercial utility of the invention as shown by the use of it in the art or industry to which it relates, but may take evidence on those points up to the time of trial. Williston on Contracts, page 2394.

Such evidence is not for the purpose of showing increase in value or new uses,—which as is well settled with regard to the valuation of land taken by eminent domain would not be admissible,—but to show the inherent character and place of the invention in question. It is analogous to evidence of successful commercial use of a patent on the question of invention, and of the actual results of a physical injury for which damages are sought. *Hetzel* v. *B. & O. R. R. Co.,* 169 U. S. 26; *Cincinnati S. L. Co.* v. *Western S. L. Co.* 152 U. S. 200. * * *" (62 F. (2d) 663, 665.) (R. 85.)

The Allowance of Adequate Compensation Is the Fundamental Principle of the Law of Damages.

The fundamental purpose of the principles of law as to the allowable damages in any case is to give adequate compensation to a plaintiff and not to protect a defendant in the enjoyment of what it wrongfully has acquired or has withheld. This fundamental principle is stated as follows in Williston on Contracts:

> "For the injury caused by the non-performance of most contracts the primary if not the only remedy of the injured party is an action for damages for the breach. In fixing the amount of these damages, the general purpose of the law is, and should be, to give compensation:—that is to put the plaintiff in as good a position as he would have been in had the defendant kept his contract. (p. 2392)
>
> * * * * *
>
> It is therefore, performance that the injured party

was then entitled to, and it is not the contract of which he has been wrongfully deprived by the breach, but the performance of the contract. The law in giving him a right of action for damages, therefore, should adjust the damages in such a way as to equal the value of the performance. (pp. 2393-2394.)

* * * * *

But even for such promised performance the measure of damages is not the value of a present obligation to render this performance in the future. If the case is not tried too soon to make it possible, evidence is admissible to show that in the future the damage if not speculative or remote actually turned out to be greater or less than the value which would have been placed at the time of the breach on the future undertakings in the contract. (p. 2394)"

In *United States* v. *Behan*, 110 U. S. 338, this Court stated:

"The *prima facie* measure of damages for the breach of a contract is the amount of the loss which the injured party has sustained thereby.

* * * * *

As before stated, the primary measure of damages is the amount of the party's loss; and this loss, as we have seen, may consist of two heads or classes of damage—actual outlay and anticipated profits." (p. 170)

The opinion in *Chicago, Milwaukee & St. Paul Railway Company* v. *McCall-Dinsmore Company*, 253 U. S. 97, contains the following statement to the same effect:

"The rule of the common law is not an arbitrary fiat, but an embodiment of the plain fact that the actual loss caused by breach of a contract is the loss of what the contractee would have had if the contract had been performed."

In *Federal Wall Paper Co.* v. *Kempner*, 244 Fed. 240, Judge Ray in the District Court for the Northern District of New York also stated the same general principles as follows:

"(4, 5), 'In the case of a breach of contract, the

> damages awarded should be such as will, as nearly as may be, place the injured party in the situation he would have occupied if the breach had not occurred.' *Wicker* v. *Hoppock*, 6 Wall. 94, 18 L. Ed. 752; 5 Encyclopedia of U. S. Reports, 169. 'The amount which would have been received, if the contract had been kept, is the measure of damages if the contract is broken.' *Pierce* v. *Tennessee, etc.*, 173 U. S. 1, 19 Sup. Ct. 335, 43 L. Ed. 591; *Benjamin* v. *Hillard*, 23 How. 149, 16 L. Ed. 518. Profits are recoverable if not speculative and remote."

In accordance with the fundamental principles stated in the decisions quoted above it is necessary to ascertain what must be the measure of the damages recoverable by the respondent in this case in order to put the respondent in as good a position as it would have been in had the petitioner fulfilled the obligations of its contract. It is obvious that what the petitioner wrongfully has retained and what the petitioner wrongfully has prevented the respondent from enjoying, are the rights and privileges incident to the ownership of the Isom invention and of Isom Patent No. 1,285,200. The extent of such rights and privileges has been defined by this Court in many cases, for example, in the following statement in *Bloomer* v. *McQuewan*, 14 How. 539, which was quoted in *Continental Paper Bag Co.* v. *Eastern Paper Bag Company*, 210 U. S. 405:

> "The franchise which the patent grants consists altogether in the right to exclude everyone from making, using or vending the thing patented without the permission of the patentee. This is all that he obtains by the patent."

The situation presented in the pending action at law therefore is this: that the petitioner wrongfully, by failing and refusing to assign the Isom application or patent or invention to the respondent, has prevented the respondent from having and from exercising the right

to exclude every one (including the petitioner) from making, using or vending the thing patented without the permission of the respondent, while on the contrary, the petitioner wrongfully and in violation of the right of exclusion which the plaintiff should have had, has widely and extensively made and used the thing patented without the permission of the respondent and without giving any compensation therefor to the respondent.

The General Rule That the Market Value or Price Governs the Determination of the Damages Recoverable for a Breach of a Contract Is Not Applicable to the Pending Action at Law in Aid of Which Discovery Is Sought.

It unquestionably is the general rule that in the ordinary case for the breach of a contract to assign or transfer property the best evidence as to the amount of the damages is the market value of the property which should have been delivered by the defendant, at the place where and at the time when delivery should have been made. However, that general rule as to the best evidence to establish the amount of the damages is not applicable to the pending action at law in aid of which discovery is sought hereby, because the subject matter of the contract in suit in that action makes the ascertainment of a market value absolutely impossible. A patent only can be issued for a new and useful invention. Every patent therefore differs from every other patent and every patent therefore has a purely individual utility and value. The general rule stated above as to the best evidence of the amount of damages is applicable only to the usual articles of commerce which are bought and sold repeatedly and for which there always is a fixed market value or price established in accordance with the economic law

of supply and demand. In the case of a patent, however, no such criterion of a market value or price can exist, and the general rule for proving the amount of the damages by reference to the standard of the market value or price cannot be applied.

The petitioner's brief (p. 11 *et seq.*) states and relies entirely on the proposition that the compensation recoverable by the plaintiff in the action at law must be measured by and limited to the market value of the Isom invention and application at the date when the alleged breach of contract occurred. The respondent contends that the petitioner's proposition is fundamentally unsound in that it confuses *actual value*, which undoubtedly is the measure of the damages which generally is applicable in an action for a breach of a contract, with market value or price which only is evidence of real value. Although evidence of a recognized and established market value or price, when available, is generally the best evidence of value, resort must be had to other evidence to prove value when evidence of an established market value or price is not available.

Most of the opinions which are referred to in the petitioner's brief relate to cases in which an established market value or price for some commodity, such as cotton, was available, and in which therefore resort to other means of proving value was not allowed. In many of the opinions cited in the petitioner's brief, however, the court did not use the term "market value" but the term "value" and distinguished between the evidence which may be admitted to establish the damages when market price or value is and when it is not available.

The distinction between market value or price as evidence of value, and value as the measure of damages, is clearly made in the leading textbooks on the subject of damages.

Sedgwick on Damages, Ninth Edition, Vol. I, p. 491, Section 243, states:

> "Wherever the measure of damages involves the question of value, however much the market may be resorted to to determine what the value is, this resort is had as furnishing usually the best *evidence* of value. What plaintiff is entitled to recover is the real value of the article of property, the time, the labor, or the services, as they would be if unaffected by the defendant's tort or if the defendant's contract had been performed. If these things are bought and sold in the market, the market price shows conclusively what it would cost the plaintiff to be put in as good a position as if the tort had not been committed or as if the contract had been performed. To take the most familiar of all illustrations, in the case of failure to deliver an ordinary article of commerce sold, the vendee can replace himself by buying the article in the market. Hence his measure of damages is invariably said to be the market value. But as the cases now to be examined will show, the rule, more exactly stated, would be that his measure of damages is the *value* of the article. When there is no market value, the value must be got at by the best proof to be had."

Sedgwick on Damages, Ninth Edition, Vol. I, p. 504, Section 250, states:

> "If an article has no market value, the *real value* of it must be determined in some other way *from such elements of value as are attainable*. 'If at any particular time there be no market demand for an article, it is not on that account of no value. What a thing will bring in the market at a given time is perhaps the measure of its value then, but not the only one.' 'The market price, in the ordinary sense, is generally, but not always, the test of value. For such a tort as a conversion of goods a plaintiff may be entitled to large damages, though unable to sell the goods at any price. *He may be greatly injured by the loss of goods which he cannot sell, but which would be productive of great benefit, and therefore would be of great value, without a sale.*'" (Italics ours.)

Hale on Damages, Second Edition, p. 273, states:

"A market value, as signifying a price established by sales in the ordinary course of business, is not necessary to a judicial valuation. Property is often subject to such valuation for which no proof of value in the market could be given, because it is not bought and sold in the ordinary course of trade, and is not known in the market. In such cases the real value is to be ascertained from such elements of value as are attainable. * * * So, where there is no market value, the value may be shown by the testimony of persons whose skill and experience enables them to testify to the value. The cost, *utility, and use of the property may be taken into consideration.* (Italics ours.)

* * * * *

The market price of an article is only a means of arriving at its real value. It is not itself the value of the article, but it is evidence of the value. The law adopts it as a natural inference of fact, but not as a conclusive legal presumption. Where an article is destroyed which can be readily replaced by purchase in the market, so as to put the owner in as good a position as he was before, the market price and real value will be the same. In such cases, the market value is said to be the measure of damages, but perhaps it would be more accurate to say that the value of the article was the measure." (Italics ours.)

Sedgwick on Damages, Ninth Edition, Vol. I, pp. 508-509, Section 252, states:

"The value of property is to be estimated with reference to the most remunerative use for which it is adapted. * * *

* * * Where land has a special adaptability to a particular purpose, since the fact of such adaptability enters into its value, it may be shown to establish the value."

Sedgwick on Damages, Ninth Edition, Vol. I, pp. 510-512, Section 253, states:

"The present value of property may be enhanced

> by the possibility of making a more remunerative use of the property than the present use. Such possible future use is to be considered. * * *"

The application for the Isom patent was pending secretly in the Patent Office from September 10, 1917, until November 19, 1918. Even after the Isom patent issued to the petitioner, no market value for the inventions and improvements protected by that patent ever was established so far as anything in the record in this case indicates. Evidence of market value or price as of any time, therefore is entirely nonexistent and resort cannot be had to such evidence to prove the real value of the inventions and improvements which should have accrued to the respondent in accordance with the provisions of the contract of October 2, 1916. Resort to evidence of other kinds therefore is necessary in order to prove that value.

In *United States* v. *Swift & Company*, 270 U. S. 124, this court held with reference to bacon of a peculiar kind and which had no market price, that there was no standard by which the usual rule of damages could be the measure of the plaintiff's loss through the failure of the Government to receive the bacon in accordance with its contract, and stated in the opinion by Mr. Chief Justice Taft:

> "The rule is that where there is no general market or the merchandise is of a peculiar character and not staple, it is necessary that some other criterion be taken than the difference between the agreed price and the general market value."

That the rule of damages based on the market value or price is general in its application, but that it is not to be applied when to do so would defeat the fundamental purpose of allowing adequate compensation for the

breach of a contract, is stated in Williston on Contracts as follows:

> "Since the only compensation a court of law can give is pecuniary, it is constantly necessary in applying the rule of compensation to determine the pecuniary value of performance which has been promised and frequently also of performance which has been given. An attempt to fix pecuniary value involves the use of standards, and different standards are conceivable. *There is a standard of market price if there is a market for the performance in question;* there is a standard of the cost of replacing; *there is the standard of the pecuniary value of the performance for use by a party to a contract.* Where there is a market price this will generally be the test though in special cases the defendant may be chargeable under another standard. (pp. 2398-2399.) (Italics ours.)
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> It will not infrequently happen that goods have no market value or none which can be determined with any exactness. Whenever goods are of a special kind or are of a peculiarly good or bad grade or quality, this is likely to occur. In such a case the court must determine the value of the goods as best it can by considering the expense to the buyer of securing similar goods, or goods which would equally well serve the purpose; or by the loss of profit suffered, or the added expense incurred. (p. 2460.)
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> The test of market value is, at most, but a means of getting at the buyer's loss, and under special circumstances it may cease to be exact or may become inapplicable." (p. 2461.)

The decision of the District Court herein that the rule of damages based on the market value should be applied in the pending action at law to which this suit in equity is ancillary, obviously would have had the effect of making the proof of actual damages so difficult, that, no matter how meritorious the respondent's case may be, it might have made it impossible for the jury to allow any-

thing more than nominal damages. However, as is stated hereinbefore, the fundamental purpose of the rules of law relative to damages is to allow adequate compensation to a plaintiff and not to protect a defendant in the enjoyment of that which it wrongfully has withheld, and therefore the respondent contends that some rule of damages or of evidence must be applied in this case so as to accomplish that fundamental purpose. In this connection the following general observations stated by the Circuit Court of Appeals for the Sixth Circuit in *United States Frumentum Co.* v. *Lauhoff*, 216 Fed. 610, are pertinent:

> "When we are asked to determine how much compensation an owner of any property should have because it has been wrongfully taken, our first thought is of the market value. The market value of the property or the impairment of that value is the ordinary, normal measure of damages.
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> Returning, now, to the observation of all other kinds of property and rights excepting patent rights, there remains a class of cases or a group of instances where no market value existed and where no loss or impairment of sales can be definitely proved. The law is not, in such case, impotent. *Plaintiff is not compelled to go away with nominal damages just because he cannot show that his property, or other like it, was commonly bought and sold on the market, or because he did not wish to sell, or because it was returning him no income. The real value—the actual value—of what has been taken is always the ultimate question.* Proof of market value is one way to show this actual loss; proof of lost sales is another way. But, if neither of these methods can be followed, the law permits other available, pertinent proofs. Those familiar with real estate estimate and testify to the real value or fair value of land which is without market value (*Chicago, etc., Ry.* v. *Ohio Co.* (C. C. A. 6) 214 Fed. 751, 131 C. C. A. 57); and these witnesses and *the jury may take into account all the special circumstances of the situation as bearing on the ulti-*

mate question. The same thing is true as to personal property of such character that it has no market value. Instances of the application of this rule as to both real and personal property are too familiar for citation. *In the same general class are all personal injury cases.* Pain and suffering, the loss of earning power, the loss of support, are all things which have no market value and all present situations where the damages cannot be ascertained or computed according to any arithmetical formula; *but the jury is put in possession of all the facts and circumstances,* it has the benefit of such testimony from experts as may show the rules and methods in force in the particular field, *and it estimates, as best it may, how much money will compensate plaintiff for the wrong done.*

Further pertinent familiar illustration is found in the settled rules concerning the estimation of values of property taken in the exercise of the right of eminent domain. It frequently happens that property is taken which is so situated and environed as not to possess any market value; and yet its value is universally solved by opinion evidence. Constitutional inhibitions against taking private property without compensation are no more restrictive upon the government or the agency exercising the power than are other organic provisions which are aimed against mere wrongdoers who appropriate rights of property like those involved under patent grants. *It is a travesty to allow property rights to be seized and enjoyed without remedy simply because of the supposed difficulty in establishing their value. There must be, in the nature of things, in all except the most extraordinary cases, if not in all, available testimony which can be employed with sufficient approximation to the true value—at least to justify its admission against any admitted or proved trespasser.* Denial of such a proposition must rest upon the idea that it is better for wrongs to go without redress than that they shall be redressed with imperfect accuracy." (Italics ours.)

The respondent consistently has contended that in accordance with the opinions quoted above, evidence other

than evidence of market value or price must be admissible at the trial of the pending action at law and must be relevant and material to the issue of the amount of the damages recoverable in that action, and that the amount of those damages should be measured either in accordance with the rule as to general damages for a violation of a patent right, (generally, but incorrectly, referred to as the reasonable royalty rule); or in accordance with the rule that the respondent is entitled to recover the gains which it was prevented from obtaining by reason of the petitioner's breach of the contract, or in accordance with the rule of the highest intermediate value of the property between the date delivery should have been made and the date of the trial.

The respondent furthermore has contended that in any event, because of the peculiar facts and of the peculiar situation in the action at law to which the suit for discovery is ancillary, the respondent should be permitted to introduce evidence at the trial of that action as to all facts, circumstances and conditions which may be informative and of assistance to the jury in determining a fair value for the Isom application or patent and for the inventions and improvements covered thereby, irrespective of what date may be fixed as the date of the breach of the contract, and irrespective of what rule as to the measure of the damages shall be held to be applicable. The petitioner's brief (p. 17) states that the opinion of the Court of Appeals does not indicate with any clarity what view was adopted by that court as to the measure of the damages recoverable in the action at law. The respondent contends that the opinion of the Court of Appeals held that the respondent is not limited to damages measured by the market value or price of the Isom application or patent or invention as of any particular time, and that the respondent is entitled to re-

cover general damages measured by the fair value of the inventions and improvements protected by the Isom patent. However, the order of the Court of Appeals reversing the order of the District Court which dismissed the petitioner's bill in equity for discovery, is correct, and it should be affirmed irrespective of what measure as to the recoverable damages shall be held to be applicable.

The Evidence of Which Discovery Is Sought Herein Will Be Relevant and Material to Establish the Amount of the Respondent's Damages in Accordance With the Rule of the Allowable General Damages for a Violation of a Patent Right.

The respondent primarily has suggested and has urged the applicability to the trial of the pending action at law, rather as a rule relative to the admissibility of evidence than as a measure, strictly speaking, of the damages recoverable, of what generally, but not very properly, is called the reasonable royalty rule, as the most reasonable rule in accordance with which the respondent may establish its actual damages by the best and most satisfactory evidence. The application of that rule thereby would fulfill for this case the fundamental purpose of the rules of law relative to damages. As stated by the Circuit Court of Appeals for the Sixth Circuit, however, what frequently is spoken of as a reasonable royalty is not in precise terminology a royalty at all, but that phrase merely is used as a convenient means of naming a particular kind of damages which also might well be called general damage, that is to say, damage not resting on any of the applicable exact methods of computation but upon facts and circumstances which permit the jury or the court to estimate in a general but in a sufficiently

accurate way the injury caused to a plaintiff. The circumstances under which the courts have had recourse to this general damage rule for the purpose of enabling a plaintiff to prove and to recover adequate compensation, appear to be very similar to the circumstances and conditions existing in the case here under consideration.

In *United States Frumentum Company* v. *Lauhoff*, 216 Fed. 610, the Circuit Court of Appeals for the Sixth Circuit stated in the opinion by Circuit Judge Denison:

> "It follows that, upon the basis of the master's findings, the District Court was right in directing nominal damages only; and it would ordinarily follow in this condition of the case that the judgment below would be affirmed. We are not satisfied to have this case take that course. There is a finding that the patent was valid; that the defendant Lauhoff, who had sold the patent, infringed it extensively and so endeavored to keep what he had sold; and that defendants' sales were so large that no one can doubt the actual existence of substantial damages. Under such circumstances, to have plaintiff recover nothing, because the difficulty of absolutely definite proof is insuperable, is a result so unfortunate that, if avoidable, it should not be permitted.
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> Infringement upon the patentee's rights is a tort; it is a taking of the patentee's property. The measure of damages for that wrong is sometimes clear and sometimes its borders are obscure. *We may with benefit compare the rules of damages as applied to property generally; for patents have no peculiarities making general rules of law wholly inapplicable.* * * * *Obviously, where the act done is the wrongful manufacture and sale of a patented article, the thing taken is the right to manufacture and sell. This is the right which would be given by a license from the patentee, and, since the recovery and collection of full damages (past and future) for a sale operates to give a license to the vendee* (*Stutz* v. *Armstrong* (C. C.) 25 Fed. 147, 148), *the value of that license is the thing to be determined. Ob-*

viously, too, the fixed, established license fee or royalty is the only evidence of the market value of the right to make and sell. If there is no such established royalty, the thing taken has no market value, and this criterion of damages must fail. From *Seymour* v. *McCormick*, 16 How. 480, at page 490, 14 L. Ed. 1024, it appears that *the use of a license fee as the measure of damages in a patent case is only adopting the ordinary rule of market value universally applied as to other property;* and, though this thought is not often repeated, it remains the logical basis for this first, 'primary' criterion of damages.

With reference to the owner's exclusive right under some patents, just as with reference to innumerable other items or whole classes of property, it often happens that there is no market value. In such case, the law always looks for some other appropriate measure. This is perhaps most commonly found, with reference to general property, in the owner's entire loss of a sale, or lessened profits on a sale he does make; and the profits which the owner would have made except for the unlawful interference are the familiar measure. This has come to be independently considered as a criterion of damages, sometimes an alternative for and sometimes displacing the 'primary' criterion. So, in patent cases, where a loss of sales or diminution of selling price or increase of selling expense by plaintiff can be fairly traced to defendant's infringement, so that the cause and effect relation is established, the profits which plaintiff has thus lost become an accepted measure of damages. Here, also, there is perfect accord between the rules as to property generally and the rules as to patent property. (Italics ours.)

* * * * *

We can see no reason why the owner of a patent may not be compensated upon the same principles, or why the perfect analogy between the rules of damages as to general property and as to patent property which apply with reference to market value and with reference to lost sales should be discarded when we come to what may, for convenience, be called general damages. *The jury, in a patent case,*

can be shown what plaintiff's patent property was, to what extent defendant has taken it, its usefulness and commercial value as shown by its advantages over other things and by the extent of its use and as shown by the profits and savings which could be made upon its sale or adoption. The jury can learn how much of a realizable profit should be credited to the manufacturing process and business risk and how much to the patent, also, what share of the profits or of the selling price it may be customary in that or similar business to allow for the use of such an invention. Experts may be amply qualified to give useful opinions as to the value of the property which is to be appraised. More or less of these things may appear in a given case, all having a bearing on the real value of that for which plaintiff is to be compensated, and the case presents no greater difficulty in computing and ascertaining damages than is met by a hundred juries every day. *This damage or compensation is not, in precise terminology, a royalty at all, but it is frequently spoken of as a 'reasonable royalty'; and this phrase is a convenient means of naming this particular kind of damage. It may also be well called 'general damage'; that is to say, damage not resting on any of the applicable, exact methods of computation but upon facts and circumstances which permit the jury or the court to estimate in a general, but in a sufficiently accurate, way the injury to plaintiff* caused by each infringing sale.

Save for the effect of the decided cases, we should have no hesitation in affirming the right of the patentee to recover such 'general damage' or 'reasonable royalty' in a case where the clearer criteria did not exist, where the utility and advantages of the invention were established and where there was substantial basis for estimating the value of these advantages. To send the successful plaintiff away after years of litigation and with only nominal damages is repellent to the sense of justice. Such a result has been many times condemned; it is characterized by Judge Severens as 'an untoward ending of a good cause' (*Brennan* v. *Dowagiac*, 162 Fed. 472, 473, 478, 89 C. C. A. 392, 398), and led him to say,

speaking of the patentee's difficulty in preserving his rights:

'But this only enhances the obligation of the courts to find a way, if it be possible, to redress the wrongs done by those who have been willing to gather the fruit into their own basket.' " (Italics ours.)

The court then proceeded to analyze and discuss the many earlier cases in which the same principle of general damages had been considered, primarily because of the impression which had been entertained by some courts that the decision of this court in *Coupe* v. *Royer*, 155 U. S. 565, had overruled the earlier decisions which had sustained the right of a plaintiff to recover in a suitable case in accordance with the general damage rule. After this consideration, however, the court held that the Frumentum Company was entitled to a reversal for the purpose of having a master or a jury determine as a question of fact the amount of the general damages to which it was entitled on account of the infringement of its patent, and stated the conclusion:

"* * * it may be that the rule which we are here stating will afford the means by which the courts can, in most instances, feel reasonably satisfied that substantial justice is done and also that the result is reached with due regard to all applicable general rules of law."

In *Suffolk Mfg. Co.* v. *Hayden*, 3 Wall. 315, this court stated:

"As to the question of damages: it appeared that no sales had been made of the patent right by the plaintiff, or licenses for the use of it, so as to establish a patent or license fee as a criterion by which to ascertain the measure of damages; and the court below permitted evidence after objection, as to the uses and advantages of this improvement over the previous method of cleaning cotton; and an expert testified that 'the results were: a more thorough cleaning of the cotton: the saving of all the good fibers; less damage of the staple, the freeing of the

room from dust and machinery from dust, dirt and sand, the keeping of the machinery in better order at less cost, and dispensing with one grinder of the cards in consequence of the diminution of the dirt and sand; expelling the fine dust and dirt not before got out; less breakage of the yarns,' etc.

There was, also, evidence of the amount of cotton that had been cleaned at the defendant's mills by the plaintiff's improvement, within the period for which the damages were claimed.

"This question of damages, under the rule given in the statute, is always attended with difficulty and embarrassment both to the court and jury. There being no established patent or license fee in the case, in order to get at a fair measure of damages, or even an approximation to it, general evidence must necessarily be resorted to. *And what evidence could be more appropriate and pertinent than that of the utility and advantage of the invention over the old modes or devices that had been used for working out similar results? With a knowledge of these benefits to the persons who have used the invention, and the extent of the use by the infringer, a jury will be in possession of material and controlling facts that may enable them, in the exercise of a sound judgment, to ascertain the damages, or, in other words, the loss to the patentee or owner, by the piracy, instead of the purchase of the use of the invention.*" (Italics ours.)

In *Dowagiac Manufacturing Company* v. *Minnesota Moline Plow Company*, 235 U. S. 641, this court stated in the opinion by Mr. Justice Van Devanter:

"As the exclusive right conferred by the patent was property, and the infringement was a tortious taking of a part of that property, *the normal measure of damages was the value of what was taken.* So, had the plaintiff pursued a course of granting licenses to others to deal in articles embodying the invention, the established royalty could have been proved as indicative of the value of what was taken, and therefore as affording a basis for measuring the damages. *Philp* v. *Nock*, 17 Wall. 460, 462, 21 L. Ed. 679; *Birdsall* v. *Coolidge*, 93 U. S. 64, 70, 23 L. Ed.

802, 805; *Clark* v. *Wooster*, 119 U. S. 322, 326, 30 L. Ed. 392, 393, 7 Sup. Ct. Rep. 217; *Tilghman* v. *Proctor*, 125 U. S. 136, 143, 31 L. Ed. 664, 666, 8 Sup. Ct. Rep. 894. But, as the patent had been kept a close monopoly, there was no established royalty. In that situation *it was permissible to show the value by proving what would have been a reasonable royalty, considering the nature of the invention, its utility and advantages, and the extent of the use involved.* Not improbably such proof was more difficult to produce, but it was quite as admissible as that of an established royalty. In *Suffolk Mfg. Co.* v. *Hayden*, 3 Wall. 315, 320, 18 L. Ed. 76, 78, where a like situation was presented, this court said that 'in order to get at a fair measure of damages, or even an approximation of it, general evidence must necessarily be resorted to.' See also *Washington, A. & G. Steam Packet Co.* v. *Sickles*, 19 Wall. 611, 617, 22 L. Ed. 203, 204; *Root* v. *Lake Shore & M. S. R. Co.* 105 U. S. 189, 198, 26 L. Ed. 975, 978. And in many cases in the other Federal courts the damages have been assessed upon proof of a reasonable royalty. The practice is illustrated by the following extract from the opinion in *Hunt Bros. Fruit-Packing Co.* v. *Cassiday*, 12 C. C. A. 316, 318, 29 U. S. App. 116, 64 Fed. 585, 587: 'The plaintiff was clearly entitled to damages for the infringement. If there had been an established royalty, the jury could have taken that sum as the measure of damages. In the absence of such royalty, and in the absence of proof of lost sales or injury by competition, the only measure of damages was such sum as, under all the circumstances, would have been a reasonable royalty for the defendant to have paid. This amount it was the province of the jury to determine. In so doing, they did not make a contract for the parties, but found a measure of damages.' True, some courts have regarded *Coupe* v. *Royer*, 155 U. S. 565, 39 L. Ed. 263, 15 Sup. Ct. Rep. 199, as impliedly holding that this practice was not permissible, but the decision does not admit of such an interpretation. In that case—an action at law—there was no proof of what would have been a reasonable royalty, but only of what the defendant had made or might have made out of the infringe-

ment; and all that the court held was (a) that the damages were not to be measured by what the defendant had gained or might have gained, but by what the plaintiff had lost, and (b) that, as the evidence disclosed 'no license fee, no impairment of the plaintiff's market, in short, no damages of any kind,' the verdict could not exceed a nominal sum. In *Cassidy* v. *Hunt*, 75 Fed. 1012, where the scope of that decision was carefully considered by one of the circuit judges for the ninth circuit, the conclusion was reached that it did not militate against an assessment of damages upon the basis of what would have been a reasonable royalty; and a like view was expressed and applied by the circuit court of appeals for the third circuit in *McCune* v. *Baltimore & O. R. Co.* 83 C. C. A. 175, 154 Fed. 63, and *Bemis Car Box Co.* v. *J. G. Brill Co.* 119 C. C. A. 229, 200 Fed. 749, 762, and by the circuit court of appeals for the sixth circuit in *United States Frumentum Co.* v. *Lauhoff*, 216 Fed. 611. But, although the plaintiff was entitled to prove what would have been a reasonable royalty, and thereby show a proper basis for an assessment of damages, no proof upon that subject was presented." (Italics ours.)

In *American Telephone and Telegraph Company* v. *Radio Audion Company*, 5 F. (2d) 535 (District of Delaware, 1925), District Judge Morris stated:

"* * * The more troublesome problem has been to find a standard by which the amount of plaintiff's damages, when shown to be substantial, could be estimated and measured with reasonable certainty and in a sufficiently accurate way when there is no evidence of an established royalty, lost sales, or lessened profits. But that problem, as I understand the cases, has now been solved. The standard determined upon and fixed is that of general damage or reasonable royalty. *Dowagiac Mfg. Co.* v. *Minnesota Plow Co.* 235 U. S. 641, 648; *United States Frumentum Co.* v. *Lauhoff*, 216 F. 610, 132 C. C. A. 614; *Bemis Car Box Co.* v. *J. G. Brill Co.* 200 F. 749, 119 C. C. A. 229; *McCune* v. *Baltimore & O. R. Co.* 154 F. 63, 83 C. C. A. 175. The rule has been stated thus: 'Where damages cannot be assessed on the basis

> of a royalty nor on that of lost sales nor on that of reduced profits, the proper method of assessing them is to ascertain what would have been a reasonable royalty for the infringer to have paid.'" Walker on Patents (3d Ed.) § 563.
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The petitioner has claimed that evidence similar to that held to be admissible in the above cases in accordance with the reasonable royalty rule (to use the customary term rather than the more strictly accurate term of "general damage rule"), is not admissible as relevant and material evidence on the issue of the amount of the damages recoverable in the pending action at law for the reasons:

First. That the so-called reasonable royalty rule only has been applied by the courts in actions for damages for the infringement of patents, which actions of course sound in tort, and that therefore that rule is not applicable to an action, such as that here under consideration, for damages for the breach of a contract, and

Second. That any damages allowed in this case in accordance with the so-called reasonable royalty rule, would be entirely speculative, uncertain and indefinite, because there is no way of establishing that the petitioner would have taken a license from the respondent under the Isom patent, if the petitioner had assigned that patent to the plaintiff in accordance with the provisions of the contract of October 2, 1916.

The respondent submits that there is no merit whatsoever to the petitioner's contention that the general damages rule cannot be applied in this case merely because this is an action for a breach of contract and because the rule heretofore has been applied only in actions sounding in tort.

17 C. J. 717, Sec. 53 (b) Effect of Nature of Form of Action, states:

> "The underlying principles governing an award of damages are the same whether the action is in contract or in tort and do not depend upon its form."

The same principle has been established by this court in *Hetzel* v. *Baltimore & Ohio Railroad Company*, 169 U. S. 26. With reference to the question of the damages recoverable this court stated in that case:

> "Of course, in such inquiries, absolute certainty as to the damages sustained is in many cases impossible. All that the law requires is that such damages be allowed as, in the judgment of fair men, directly and naturally resulted from the injury for which suit is brought. This is the rule which obtains in civil actions for damages. They have their foundation in the idea of just compensation for wrongs done. In *United States Trust Company* v. *O'Brien*, 143 N. Y. 284, 287-289—which was an action for damages for the breach of certain covenants contained in a lease—Mr. Justice Peckham, speaking for the court of appeals of New York, when a member of that court, said: 'It is clear, and so it has been held in many cases, that *the rule of damages should not depend upon the form of the action. In all civil actions the law gives or endeavors to give a just indemnity for the wrong which has been done the plaintiff, and whether the act was of the kind designated as a tort or one consisting of a breach of a contract is on the question of damages an irrelevant inquiry.* As was said by Rapallo, J., in *Baker* v. *Drake*, 53 N. Y. 211, 220 (13 Am. Rep. 507), the inquiry is What is an adequate indemnity to the party injured, and the answer cannot be affected by the form of the action in which he seeks his remedy.'' (p. 37.) (Italics ours.)

In *Cincinnati Siemens-Lungren Company* v. *Western Siemens-Lungren Company*, 152 U. S. 200, in referring to the rule relative to damages which had been es-

tablished in *Seymour* v. *McCormick*, 57 U. S. 16, this court stated:

> "*It is true that that was an action for an infringement, and this for a breach of a contract, but still the rule of damages is the same.* Actual damages is what the law gave in case of an infringement (*Birdsall* v. *Coolidge*, 93 U. S. 64 (23:802) actual damages is all the law gives in case of a breach of contract." (p. 205.) (Italics ours.)

The brief for petitioner does not discuss the propositions on which the respondent has relied and on which it now relies and in accordance with which the respondent contends that all the evidence sought by the bill of discovery herein is admissible as being relevant and material to the issue of the amount of the damages suffered by the respondent on account of the petitioner's breach of the contract of October 2, 1916.

The memoranda which were filed in the District Court in support of the petitioner's motion as the defendant in that court to dismiss the bill in equity for discovery herein, and the petitioner's brief as the appellee in the Circuit Court of Appeals, commented on the cases which we have cited and quoted in support of the Bill of Discovery, and in which the courts discussed the general damages rule and applied that rule for the purpose of allowing the recovery of substantial compensatory damages, and contended that that general damages rule, (which frequently is referred to as the reasonable royalty rule but which more accurately stated is only a rule which permits the introduction of evidence on the basis of which a jury or a court may award general damages) is applicable only to patent infringement cases and that it is not applicable to a breach of contract case. This contention appears to be predicated on the fact that the majority of the cases to which we have referred above are suits in equity for the infringement of patents, and

on the fact that patent infringement is a continuing tort and that the term "royalty" implies that a certain amount is to be applied to each infringing act as a basis for computing a total sum to be paid as royalty.

It certainly can make no difference whether the principle of law which is here under consideration has been stated by the courts in opinions in suits in equity rather than in opinions in actions at law. The ascertainment and the assessment of damages involve exclusively principles of law as distignuished from principles of equity, but in the instances in which damages are awarded in proceedings in equity, the legal principles relative to damages are applied by the courts of equity. This is illustrated by the fact that *Suffolk* v. *Hayden*, 3 Wall. 315, the leading case on the general damages or the so-called reasonable royalty rule, was an action at law, and that the decison in that case was quoted and was followed by the court in the opinion in each of the other cases cited and quoted heretofore in this section, all of which other cases were suits in equity.

Nor is there any reason why the fact that infringement is a continuing tort, should make the general damages rule inapplicable to every other kind of case, and especially to an action for damages for the breach of a contract relative to a patent right. Of course, some difference in the application of the rule is necessary, because only one recovery can be had for one breach of a contract. In the present case the fair value of the rights of which the respondent has been deprived by the petitioner's breach of the contract of October 2, 1916, and reasonable compensation for the loss inflicted on the respondent by that breach of the contract, could be measured by the amount of a reasonable paid-up royalty for the use by the petitioner of the inventions of the Isom

patent. Evidence as to the actual commercial use of those inventions by the petitioner, and of the extent of that commercial use, certainly will be relevant and material for the consideration of the jury in determining the amount of such damages.

In *Suffolk* v. *Hayden*, this court approved an instruction which had been given to the jury by the trial court, stating:

> "The court below, in its charge to the jury, stated the rule as prescribed by the statute, which is the actual damages that the plaintiff has sustained from the infringement, and among other things observed: 'Then you will look at the value of the thing used, and ascertain that value by all the evidence as to its character, operation and effect. You will take into view the value of that which the defendants have used, belonging to the plaintiff, to aid you in forming the judgment of the actual damage the plaintiff has sustained.'" (70 U. S. 315, 319.)

Exception was taken by the defendant to the above instruction on the ground that it gave a latitude to the jury in the estimate of damages beyond that of the use or value of the improvements embraced in the patent in question. With reference to one basis for that contention this court stated:

> "* * * It is also urged that the value of the improvement was not a proper subject for the consideration of the jury in estimating the damages. This may be admitted. But looking at the term 'value' in the connection in which it was used, it is quite clear that it had reference only to the utility and advantages or value of the use of the improvement over the old mode of cleaning cotton; not the value of the patent itself." (p. 19.)

The instruction quoted above properly could be given to the jury at the trial of the pending action at law in aid of which the Bill of Discovery herein was brought, without changing one word, although, of course, the term

"value" would be used at the trial of the pending action at law in a different connection and would refer to the value of the Isom patent itself and to the value of the improvements covered by that patent, and would not refer only to the value of the use of the inventions of that patent by the Sinclair Company during a specified period of time. Evidence of the same character as that which was admitted in *Suffolk* v. *Hayden* to prove the amount of the damages to which the plaintiff was entitled for the infringement under consideration in that case in accordance with the general damages rule, also would have furnished a sufficient, even if not an equally exact basis, for the jury to have determined the value of the patent in suit in that action, if an issue as to that value had been involved. Similar evidence should be admitted at the trial of the pending action at law to which this proceeding in equity is ancillary, either as a basis for fixing a value for the Isom patent or as a basis for allowing the plaintiff to recover general damages in accordance with the cases to which we have referred.

It therefore is apparent that the defendant's contention does not submit any sound reason why the general damages rule cannot be applied in the pending action at law to which this suit in equity is ancillary, if the peculiar circumstances and conditions in the case make it necessary, as they clearly do, to apply that rule in order to allow the respondent to establish and to recover the actual damages caused by the petitioner's breach of the contract in suit in that action at law.

Neither does there appear to be any merit in the petitioner's theory that to make the general damages rule applicable in this case, it would be necessary for the respondent to establish by competent evidence that the petitioner would have taken a license under the Isom

patent, and would have paid the respondent a royalty therefore, if the petitioner had complied with the contract of October 2, 1916, and had assigned that patent to the plaintiff. There is no necessity to speculate as to what would have been the situation if the petitioner had complied with the contract and had assigned the patent, but on the contrary the respondent should be compensated for the actual damages caused by the petitioner's breach of the contract, and in determining the amount of the compensation to which the respondent is entitled, due consideration must be given to all the facts and circumstances in the case as they actually exist and have existed and for the existence of which the petitioner itself is and has been solely responsible.

There is no more reason why it should be necessary in this case to prove that the petitioner would have taken a license from the respondent under the Isom patent if the petitioner had recognized its liability under the contract in suit and had assigned that patent to the respondent, than there was in any one of the many cases in which the general damages rule was applied, to require the plaintiff to prove that the defendant therein would have taken a license if it had realized that it was in fact infringing the patent of the plaintiff therein. No one of the opinions cited above even suggests that there is any such requirement.

The petitioner's contention appeared to have been based on the theory that an application of the general damages rule in any case has the effect of creating a contract between the parties by act of the court. That, however, is not the result. In *Hunt Brothers Food Packing Company* v. *Cassiday*, 54 Fed. 585, the Circuit Court of Appeals for the Ninth Circuit stated:

> "The plaintiff was clearly entitled to damages for the infringement. If there had been an established

> royalty, the jury could have taken that sum as the measure of damages. In the absence of such royalty, and in the absence of proof of lost sales or injury by competition, the only measure of damages was such sum as, under all the circumstances, would have been a reasonable royalty for the defendant to have paid. This amount it was the province of the jury to determine. In so doing, they did not make a contract for the parties, but found a measure of damages. *McKeever* v. *U. S.* 14 Ct. Cl. 414; *Ross* v. *Railway Co.* 45 Fed. 424; *Royer* v. *Coupe* 29 Fed. 371; *Cary* v. *Manufacturing Co.* 37 Fed. 654."

The above statement in *Hunt Brothers* v. *Cassiday* was quoted and approved by this court in the Dowagiac case and by the Circuit Court of Appeals for the Sixth Circuit in the Frumentum case (216 Fed. 610, 621).

We submit that all the special considerations and circumstances which have caused the courts in the many cases to which we have referred hereinbefore, to apply the general damages rule for the purpose of allowing the plaintiff in each case to recover adequate and substantial damages for a wrongful violation of the right of exclusion conferred by a patent, are present in the action at law to which this suit in equity is ancillary. The only difference between the situation in the cases which we have cited, the infringement cases, and the situation in the pending action at law to which the suit here under consideration is ancillary, is that the petitioner herein has violated the respondent's rights in two respects,—

First. By failing and refusing to assign the Isom patent to the respondent in accordance with the provisions of the contract of October 2, 1916, a situation which of course has not existed in any of the infringement cases, and

Second. In wrongfully violating the right which the

respondent should have had to exclude everyone, including the petitioner, from making, using or vending the inventions of the Isom patent without the permission of the respondent, a situation which of course is exactly analogous to that in each of the infringement cases.

The fact that the petitioner has been guilty of the first wrong and that thereby the petitioner has made it impossible for the respondent to proceed directly against the petitioner to recover damages for the infringement of the Isom patent, cannot constitute any reason which the law will uphold, why the petitioner should not answer to the respondent for its second wrong, or why the same evidence of damages which would have been admissible if the first wrong had not been committed, should not be admissible in this case to allow the respondent to recover adequate compensation for the damage and loss suffered on account of the petitioner's breach of the contract of October 2, 1916.

The Respondent Is Entitled to Recover the Gains Which It Was Prevented From Obtaining by the Petitioner's Refusal to Assign the Isom Patent and Invention as the Measure of the Damages Recoverable in the Pending Action at Law in Aid of Which Discovery Is Sought.

The respondent contends that it is entitled to recover substantial damages not only in accordance with the general damages rule, as that rule has been stated and applied in the cases discussed in the preceding section of this brief, but also in accordance with the well established principle that under certain circumstances, lost profits may be recovered as an element of damage.

However, although lost profits is the term generally used, gains prevented is a better and more accurate designation for this element of damage. This court so held in *Eckington & Soldiers Home Railway Company* v. *McDevitt*, 191 U. S. 103, an action for a breach of contract, when it stated:

> "In a case like this, gain prevented is a more accurate term than loss of profits. And it is said in Sedgwick on Damages, 8th ed., vol. 1, p. 250, § 173: 'Where an injured party claims compensation for gain prevented, the amount of loss is always to some extent conjectural; for there is no way of proving that what might have been, would have been.'"

The circumstances and conditions under which gains prevented are recoverable as damages are stated as follows in Williston on Contracts:

> "Though any breach of contract entitled the injured party at least to nominal damages, he cannot recover more without establishing a basis for an inference of fact that he has been actually damaged. A mere possibility that the plaintiff might have made a profit if the defendant had kept his contract will not justify damages based on the assumption that the profit would have been made. But though substantial damage must be shown in order to justify recovery of more than a nominal sum, the exact amount need not be. Where it is clear that substantial damage has been suffered the impossibility of proving its precise limits is no reason for denying substantial damages altogether. Under this principle, profits that the plaintiff would have made if the contract had been carried out may be recovered if their loss was a proximate and natural consequence of the breach, and any reasonable method of estimation is possible, even though the exact amount of profit to have been anticipated is necessarily uncertain. (pp. 2400-2401.)
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> An attempt is sometimes made to distinguish between certainty that some damage has been caused, and certainty as to the amount of damage; but no

broad statement can be made that where it is uncertain that any damage has been caused by the breach no recovery is allowable. In almost every case where prospective profits are allowed it will be true that the profit was a chance—dependent upon the ability to make a large number of contracts with other persons on advantageous terms. All reasonable expectations might have been disappointed by the happening of divers contingencies. But if the plaintiff has given valuable consideration for the promise of a performance which would have given him a chance to make a profit, the defendant should not be allowed to deprive him of that performance without compensation unless the difficulty of determining its value is extreme. In a recent English case the plaintiff by contract was entitled to become one of fifty persons, twelve of whom were to be selected by judges for the bestowal of prizes. The plaintiff was not notified of the time when the decision and award was to be made and therefore failed to present herself, and twelve other persons were awarded the prizes. A recovery of substantial damages was upheld. It was recognized that the plaintiff would have had, if the defendant had not committed a breach, about one chance in four of securing a prize. The court declined to take a distinction between a chance and a probability so far as the right to recovery was concerned. As was said in a Minnesota decision: 'It is no exoneration to defendant that his misconduct, which has made inquiry as to the quantum of harm necessary, renders that inquiry difficult. The best the law can do is to award approximate compensation. Its failure to do even and exact justice in such cases is not more conspicuous than in many others. No other remedy is available. To allow only for loss of time and expenses would put a premium upon breaking contracts and deny substantial justice.'

Though the fact that the plaintiff's damage is uncertain in amount or even that it is uncertain that substantial damage has been caused should not deprive the plaintiff of a right to compensation for the loss of the defendant's performance which would have given the plaintiff a chance to make profit or

avoid damage, such uncertainty is a good reason for applying some other test, if another test is possible, for estimating his damage than by letting a jury guess at the value of the plaintiff's chance or probability by seeking to estimate his probable profits and losses. For this reason where the performance of which the plaintiff has been deprived has a market value, courts will be more reluctant to allow the test of prospective profits than in a case where if prospective profits are not allowed the plaintiff will be denied relief altogether. Thus where the defendant has wrongfully broken a contract to furnish power to run a mill, some courts restrict the damages to a difference between the rental value of the mill if the contract had been kept and its rental value in view of breach. Other courts allow loss of profits to be estimated by the jury. But courts which would deny the plaintiff in such a case the right to recover anticipated profits would doubtless allow proof of such profits in a case where no other method of estimating the plaintiff's damage was possible and where, therefore, a rejection of the test of anticipated profits would result in denying the plaintiff all substantial relief. Where a breach of contract involves deprivation of a chance which has value in a business sense, a just reluctance will be felt by most courts to deny altogether the recovery of substantial damages." (pp. 2403-2404.)

In *Cincinnati Siemens-Lungren Gas Co.* v. *Western Siemens-Lungren*, 152 U. S. 200, this court, after holding that the rule of damages is the same in an action for a breach of a contract as in an action for an infringement, and after referring to an infringement case, stated:

"Indeed, the real difference between that case and this is not so great as would be suggested by a description of the respective causes of action. For here, under the contract made by the plaintiff's assignor with the Cincinnati parties, the defendant became vested with a monopoly of sales within the prescribed territory of like nature to the monopoly given by the government for the whole territory of the United States whenever it issues a patent; and

the act of the plaintiff in making a sale within that territory was an infringement similar to that of a sale of a patented article made within the limits of the United States in defiance of the rights of the patentee. Nevertheless it must be conceded that in the case at bar there is technically a claim for a breach of a contract, and it is undeniable that in some cases the profits that would have been made are proper elements of damage in such an action. This matter has been recently considered by this court in *Howard* v. *Stillwell & B. Mfg. Co.*, 139 U. S. 199 (35:147), from the careful opinion of Mr. Justice Lamar in which case we quote as follows:

'The grounds upon which the general rule of excluding profits, in estimating damages, rests are (1) that in the greater number of cases such expected profits are too dependent upon numerous uncertain and changing contingencies to constitute a definite and trustworthy measure of actual damages; (2) because such loss of profits is ordinarily remote and not, as a matter of course, the direct and immediate result of the non-fulfillment of the contract; (3) and because most frequently the engagement to pay such loss of profits, in case of default in the performance, is not a part of the contract itself, nor can it be implied from its nature and terms. 1 Sedgw. Damages (7th ed.) 108; *The Lively*, 1 Gall. 315, 325 per Mr. Justice Story; *The Anna Maria*, 15 U. S. 2 Wheat, 327 (4:252); *The Amiable Nancy*, 16 U. S. 3 Wheat, 546 (4:456); *La Amistad de Rues*, 18 U. S. 5 Wheat, 385 (5:115); *Smith* v. *Condry*, 42 U. S. 1 How. 28 (11:35); *Parish* v. *United States*, 100 U. S. 500, 507 (25:763, 766); *Bulkley* v. *United States*, 86 U. S. 19 Wall. 37 (22:62). But it is equally well settled that the profits which would have been realized had the contract been performed, and which have been prevented by its breach, are included in the damages to be recovered in every case where such profits are not open to the objection of uncertainty or of remoteness, or where from the express or implied term of the contract itself, or the special circumstances under which it was made, it may be reasonably presumed that they were within the intent and mutual understanding of both parties at the time it

was entered into. *United States* v. *Behan*, 110 U. S., 338, 345, 346, 347 (28:168, 170, 171); *Western Union Telegraph Co.* v. *Hall*, 124 U. S. 444, 454, 456 (31:479, 483); *Philadelphia, W. & B. R. Co.* v. *Howard*, 54 U. S. 13 How. 307 (14:157).' "

The same principle was stated again by this court in *Anvil Mining Co.* v. *Humble*, 153 U. S. 540, a case for the breach of a contract in which a recovery for lost profits as damages was sustained, when it stated (p. 817):

> "A third proposition of defendant is that 'under the facts in this case the damages claimed for loss of profits were too uncertain, contingent, and conjectural to found a verdict upon.' Profits which are a mere matter of speculation cannot be made the basis of recovery in suits for breach of contract, while profits which are reasonably certain may be."

The principles which allow the recovery of substantial damages for loss of profits were applied recently by the Circuit Court of Appeals for the First Circuit in *Gasoline Products Co.* v. *Champlin Refining Co.* 39 F. (2d) 521. The questions arose in connection with a counterclaim by the defendant on account of a breach by the plaintiff on a contract to erect a treating tower to purify cracked gasoline. The court stated:

> "(2) It is plain, from the whole course of the dealings between the parties, that the plaintiff's undertaking was to furnish means for the defendant to make an increased part of its crude oil marketable in order that it might thereby derive profits. The defendant's claim for damages falls, therefore, within those cases which hold that, if profits were in the contemplation of the parties, and there is shown some rational basis for determining such profits, they may be recovered as damages. *Central Coal & Coke Co.* v. *Hartman* (C. C. A.) 111 F. 96; *Bishop-Babcock-Becker Co.* v. *Estes Drug Co.* 63 Okl. 117, 163 P. 276; *Stearnes Co.* v. *Robins*, 114 Okl. 156, 245 P. 63; *Gagnon* v. *Sperry & Hutchinson Co.* 206 Mass. 547, 92 N. E 761; *Armstrong* v. *Bangor Mill Sup-*

ply Corp. 127 Me. 194, 142 A. 734; Id., 128 Me. 75, 145 A. 741; *Waukeag Ferry Assoc.* v. *Arey*, 128 Me. 108, 146 A. 10; *Eastman Kodak Co.* v. *Southern Photo Materials Co.* 273 U. S. 359, 47 S. Ct. 400, 71 L. Ed. 684. (pp. 522-523.)

* * * * *

We observe, generally, that the amount of defendant's damage was peculiarly a question of fact for the jury, to be determined on very conflicting evidence. It is not surprising that the jury found no persuasive case made out for damages approximating the defendant's claim of over $300,000. On the other hand, it is equally clear that the defendant did, on the weight of evidence, make out a claim for a substantial sum of lost profits as damages. (p. 523.)

* * * * *

This ruling was made at least twice. Near the close of the long charge the court read to the jury the defendant's seventh request, as follows:

> 'If you find for the defendant, in accordance with the instructions previously given you, I instruct you that defendant is entitled to recover all the damages which are the natural and probable consequence of plaintiff's breach of contract, and all damages which the parties should reasonably anticipate would result from a breach of contract by the plaintiff, and in this respect I instruct you that the defendant would be entitled to recover all the profits which it lost by reason of plaintiff's breach of contract, if you find that profits were in the contemplation of the parties when the contract was entered into and that the profits claimed are not remote nor speculative but are capable of reliable measurement, that is, can be ascertained by you with a reasonable degree of certainty.'

He then added:

> 'That is in substance what I have already told you, and, further, I will instruct you that they must be in no degree conjectural. That word was omitted from the instruction.'" (p. 523.)

* * * * *

"The jury were thus, after they had indicated their general conclusion in favor of the defendant, emphatically told that any degree of uncertainty would cut off the defendant's claims for damages. Under such circumstances, we cannot say the jury were not misled. Only reasonable certainty is requisite. 1 Sedgwick, Damages (9th Ed.) § 176. The seventh request was a correct statement of the law. In *Eastman Kodak Co.* v. *Southern Photo Co., ubi supra,* the Supreme Court approved this instruction:

> 'Damages are not rendered uncertain because they cannot be calculated with absolute exactnes. It is sufficient if a reasonable basis of computation is afforded, although the result be only approximate.'

Compare *Malone* v. *Hastings* (C. C. A.) 193 F. 1; *Central Coal & Coke Co.* v. *Hartman, ubi supra.* The verdict of only $40,980.59 cannot, on the evidence, be reconciled with any very substantial allowance of profits." (p. 524.)

A petition for a writ of certiorari was granted in the above case but limited to the question whether the Circuit Court of Appeals erred in limiting the new trial to the question of damages. (282 U. S. 824.)

We submit that in accordance with the principles stated and applied in the above cases, the respondent is entitled to compensation for the gains which it has been prevented from making because of the petitioner's failure and refusal to assign the Isom patent and invention to the respondent in accordance with the provisions of the contract of October 2, 1916. One part of the gains which the respondent thereby has been prevented from making clearly consists of the royalties which the plaintiff should have obtained from the Sinclair Company for its use of the inventions of the Isom patent in its commercial cracking of petroleum oils to produce gasoline. As there is no established royalty from which the exact amount of those prevented gains can be determined, the

amount of the damages which should be awarded to the respondent in the action at law on account of those prevented gains, clearly is commensurate with the sum which would have constituted a reasonable royalty for the petitioner to have paid for a right to the wide and extensive use of the inventions of the Isom patent required by the petitioner's commercial operations.

The circumstances surrounding the execution of the contract of October 2, 1916, establish clearly that compensation for gains prevented is allowable as an element of damage in the pending action at law for the breach of that contract. When that contract was made the parties thereto were negotiating with reference to a sale or license of the inventions made by Mr. Jenkins in the oil cracking art, (R. 14) and the contract was executed to protect the plaintiff against the very thing that has taken place, namely, the acts of the defendant in obtaining the fullest possible disclosure of everything pertaining to Mr. Jenkins' ideas, including an inspection of the secret patent applications, and in then secretly proceeding to develop those ideas and to secure a patent on an improved apparatus and process, without giving any compensation whatsoever to the plaintiff. Certainly it must have been within the contemplation of the parties that the proper measure of the damages for such a breach of the contract in suit, would consist of a reasonable royalty payable by the petitioner to the respondent for the use of any improvement, whether of a mechanical nature or in the process, which might be developed by the petitioner's experts and engineers, and on which a patent might be secured which should not be assigned to the respondent. Certainly any damages measured and determined in that manner will not be remote or speculative, but on the contrary, will be the natural and probable consequence of the petitioner's breach of the con-

tract and will be capable of reliable measurement, so that all the conditions imposed by the courts for the allowance of such damages in any case are fulfilled in every respect in this case.

The Respondent Should Be Permitted to Introduce Evidence at the Trial of the Pending Action at Law as to All Facts, Circumstances and Conditions Which May Be Informative and of Assistance to the Jury in Determining a Fair Value for the Isom Application or Patent and for the Isom Inventions and Improvements.

Even if the damages recoverable by the respondent in the pending action at law to which this proceeding in equity is ancillary must be measured by the value of the Isom patent and invention as of the date of the petitioner's breach of the contract of October 2, 1916, or as of some date within a reasonable time thereafter, every kind of evidence should be admitted which may assist the jury in ascertaining and fixing a fair and adequate value of the patent and invention as of that date. As we have stated hereinbefore, a patent is not an article of commerce which is bought and sold repeatedly and for which a market value as of any date is established in accordance with the economic law of supply and demand. However, the failure of that standard of value does not prevent a plaintiff from establishing a value for a patent or for any other property by introducing whatever secondary and circumstantial evidence may be available.

Crichfield v. *Julia*, 147 Fed. 65, is a case which is very much in point on the question here under consideration, because of the latitude allowed to the plaintiff in that case in the introduction of evidence to establish what should have been the value of stock which never was issued. The case was for the breach of a contract. The

plaintiff had fulfilled his part of the contract, namely, to secure a concession. The contract had provided that the defendant would organize a company to exploit the concession and that the plaintiff would receive preferred stock in that company. The company was organized and carried on the business as contemplated, but no preferred stock was authorized or issued and nothing was given to the plaintiff. The controversy related to the fixing of a value for the preferred stock which should have been issued to the plaintiff. In order to do that, the trial court admitted in evidence the entire story of the transactions and the complete details as to the organization of the company and as to the business which the company had transacted, although holding that the measure of the damages recoverable was what the preferred stock would have been worth if it had been issued on the day the plaintiff was entitled to receive it in accordance with the contract. The Circuit Court of Appeals for the Second Circuit approved all the rulings as to the admissibility of the evidence and all the instructions given to the jury by the trial court and stated:

> "It is claimed that the verdict was speculative, in that it determined what would have been the value of the one thousand shares of 6 per cent preferred stock agreed to be paid, when no preferred stock was ever issued, when no value was shown for the common stock which was issued, and when the contract failed to provide what amount of preferred stock should be issued, or whether it should be subject to an issue of bonds. Damages are speculative when the probability that a circumstance will exist as an element for compensation becomes conjectural. Anderson's Dictionary of Law. The term 'speculative damages' is usually applied in cases of breach of contract where money is sought for loss of uncertain or remote profits not within the understanding of the parties, or where there is uncertainty as to whether the party has been in fact dam-

aged, or whether the damages result from the act of the other party, or where they are wholly uncertain in measure or extent. *Anvil Mining Co.* v. *Humble*, 153 U. S. 540, 14 Sup. Ct. 876, 38 L. Ed. 814; 8 American & English Encyclopedia of Law (2d Ed.) 609. The rule against the recovery of uncertain damages has been generally directed against uncertainty as to cause rather than uncertainty as to measure or extent; that is, if it is uncertain whether the defendant's act caused any damage, or whether the damage proved flowed from the defendant's act, there may be no recovery of such uncertain damages; whereas uncertainty which affects merely the measure or extent of the injury suffered does not bar a recovery. 8 American & English Encyclopedia of Law (2d Ed.) 614; *Taylor* v. *Bradley*, 39 N. Y. 129, 100 Am. Dec. 415; *Wakeman* v. *Wheeler & Wilson Mfg. Co.*, 101 N. Y. 205, 4 N. E. 264, 54 Am. Rep. 676; *Bluegrass Cordage Co.* v. *Luthy & Co.*, 98 Ky. 583, 33 S. W. 835. We have frequently had occasion to consider this question in this circuit, and have approved the rule that mere uncertainty as to amount would not preclude recovery in actions to recover compensation for breach of contract to sell or manufacture, or for failure to deliver property which has no recognized market value, and that the party who has wrongfully broken a contract should not be permitted to reap advantage from his own wrong by insisting on proof which, by reason of his breach, is unobtainable. *In re Stern*, 116 Fed. 604, 54 C. C. A. 60; *Allen* v. *Field*, 130 Fed. 641, 65 C. C. A. 19.

This rule is peculiarly applicable to the case at bar. Here, the finding of the jury establishes that the plaintiff fulfilled his contract, the evidence shows that a corporation was formed, that the defendant turned over to it the mine and concessions obtained by plaintiff for which it issued bonds and common stock, that the corporation was working the mine, had received large amounts of asphalt therefrom, and had a large amount still on hand. The evidence justified a finding that the defendant had reaped a substantial benefit from the services rendered by plaintiff under said contract, and had so far com-

plied with his guaranty as to cause a corporation to be organized to handle said property. The sole defense now interposed to the payment of anything except nominal damages is the technical and inequitable one, that as the company was so organized as not to provide for the issuance of any preferred stock, the defendant is relieved from all liability under the contract, because having by his own act deprived the plaintiff of the means of accurately showing what would be the value of such stock, the law will not permit the plaintiff to resort to the best evidence obtainable as to such value, provided such evidence is speculative in the sense of being incomplete or uncertain."

Henry v. *North American Railway Construction Company*, 158 Fed. 79, is an opinion by the Circuit Court of Appeals for the Eighth Circuit, which thoroughly supports our contention that the respondent herein is entitled to introduce at the trial of the action at law, every kind of evidence which will assist the jury in ascertaining and in fixing either a fair value for the Isom patent and invention which were withheld from the respondent by the petitioner's breach of the contract in suit, or a fair estimate of the gains which the respondent was prevented from making on account of that same breach of the contract.

The Henry case was an action for a breach of contract consisting of a refusal by the defendant to issue certain bonds to the plaintiff in payment for work done. The court stated that the plaintiff had made out a prima facie case entitling it to judgment for the face value of the bonds when it had shown the failure to deliver the bonds. Thereafter, however, the defendant had attempted to show that the actual value of the bonds was less than their face value, but on objection of the plaintiff that the market value was the only criterion of value, although the bonds then had acquired no market value, that evi-

dence was rejected and judgment was given for the face value. In holding that that was error, the Appellate Court stated (pp. 80-81):

> "* * * Where a given article or commodity, or stock and bonds of an association or corporation, have been sold in market, or there is an established demand therefor, this may be shown as a means of fixing the value in measuring the damages for breach of contract for nondelivery. This for the reason that, if they can be bought in the market, the vendee or person entitled to them can thereby 'replace himself'; but even this market value may not be conclusive in the sense of a conclusive legal presumption. 'It stands as a criterion of value because it is a common test of the ability to purchase the thing. In such cases, what is called the "market price," or the quotations of the articles for a given day, is not the only evidence of value. The true value may be drawn from other sources.' 3 Sutherland on Damages (3d Ed.) p. 1894; Sedgwick on Damages (8th Ed.) § 250; 2 Cook on Corporations (4th Ed.) § 581; Colebrook on Collateral Securities (2nd Ed.) 546; 2 Clark & Marshall; on Private Corporations, p. 1170.
>
> The bonds, having acquired no market value, did not, however, leave the defendant helpless. Resort in such contingency may be had to other sources of information for ascertaining the actual value. The plaintiff would have the right to show that the real intrinsic value of the bond exceeded their face or market value; and the defendant, in the absence of any established market value, would have the right to show that the real value was less than that called for on their face. 'In such cases the real value is to be ascertained from such elements of value as are obtainable.' *Murray* v. *Stanton*, 99 Mass. 345; *Freon* v. *Carriage Company*, 42 Ohio St. 30, 38, 51 Am. Rep. 794; 2 Cook on Corporations (4th Ed.) § 581; 2 Clark & Marshall on Private Corporations, 1170; *Jonas* v. *Noel*, 98 Tenn. 440, 444, 39 S. W. 724, 36 L. R. A. 862; *Trust & Savings Company* v. *Home Lumber Company*, 118 Mo. 447, 24 S. W. 129; *Greer* v. *LaFayette County Bank*, 128 Mo. 559, 577, 30

S. W. 319; *Moffit* v. *Hereford, supra; Redding* v. *Godwin,* 44 Minn. 358, 46 N. W. 563; *Industrial & General Trust Company* v. *Tod,* 180 N. Y. 215, 231, 73 N. E. 7; *Griggs* v. *Day,* 136 N. Y. 162, 32 N. E. 612, 18 L. R. A. 120, 32 Am. St. Rep. 704; *Critchfield* v. *Julia,* 147 Fed. 65, 77 C. C. A. 297; *Nelson* v. *First National Bank,* 69 Fed. 798, 16 C. C. A. 425."

We have not been able to find any case in the reports which is similar to that here under consideration, in that the value of a patent had to be ascertained as of a certain date in order to measure the damages to which a party was entitled. However, the question of fixing valuations for patents has been under consideration recently by the courts in connection with the Internal Revenue Laws. In that connection, of course, it has been necessary to ascertain the value of each patent as of March 1, 1913, or as of the date of its acquisition. The cases in question have taken into consideration in fixing that value, many items of evidence relating to a subsequent time which are similar to the evidence sought by the Bill of Discovery herein. We therefore contend that these income tax cases, *Westclox Co.* v. *United States,* 37 F. (2d) 191; *Leggett & Platt Spring Bed Co.* v. *Crooks,* 34 F. (2d) 492, and *Hyatt Roller Bearing Co.* v. *United States et al.,* 43 F. (2d) 1008, also are authority for the allowance of the Bill of Discovery herein and for the admissibility at the trial of the pending action at law of all evidence subsequent to the date of the petitioner's breach of the contract of October 2, 1916, which in any way may tend to assist the jury in fixing a fair valuation for the Isom patent and invention as the measure of the damages to which the respondent is entitled.

The Highest Intermediate Value of the Isom Patent or Invention Between the Date When That Patent or Invention Should Have Been Assigned to the Respondent and the Date of the Trial Also Is a Proper Measure of the Damages for the Petitioner's Breach of the Contract of October 2, 1916.

A final consideration with reference to the measure of the damages which should be recoverable in the pending action at law with reference to which this suit is ancillary, is that the peculiar facts and circumstances involved make applicable the rule of the highest intermediate value of the property from the date delivery should have been made to the date of the trial, or at least that rule as modified and applied by this court in *Gallagher* v. *Jones*, 129 U. S. 193. In that case this court stated:

> "It has been assumed, in the consideration of the case, that the measure of damages in stock transactions of this kind is the highest intermediate value reached by the stock between the time of the wrongful act complained of and a reasonable time thereafter, to be allowed to the party injured to place himself in the position he would have been in had not his rights been violated. This rule is most frequently exemplified in the wrongful conversion by one person of stock belonging to another. To allow merely their value at the time of conversion would, in most cases, afford a very inadequate remedy; and, in the case of a broker, holding the stocks of his principal, it would afford no remedy at all. The effect would be to give to the broker the control of the stock, subject only to nominal damages. The real injury sustained by the principal consists not merely in the assumption of control over the stock, but in the sale of it at an unfavorable time, and for an unfavorable price. Other goods wrongfully converted are generally supposed to have a fixed market value at which they can be replaced at any time; and hence, with regard to them, the ordinary measure

of damages is their value at the time of conversion, or, in case of sale and purchase, at the time fixed for their delivery. But the application of this rule to stocks would, as before said, be very inadequate and unjust.

The rule of highest intermediate value as applied to stock transactions has been adopted in England and in several of the States in this country; whilst in some others it has not obtained. The form and extent of the rule have been the subject of much discussion and conflict of opinion. The cases will be found collected in Sedgwick on the Measure of Damages (479), Vol. 2, 7th ed. p. 379, note (b); Mayne, Damages, 83 (92 Law Lib.); 1 Sm. Lead Case 7th Am. ed. 367. The English cases usually referred to are *Cud* v. *Rutter*, 1 P. Wms. 572, 4th ed. note (3); *Owen* v. *Routh*, 14 C. B. 327; *Loder* v. *Kekule*, 3 C. B. N. S. 128; *France* v. *Gaudet*, L. R. 6 Q. B. 199. It is laid down in these cases that where there has been a loan of stock and a breach of the agreement to replace it, the measure of damages will be the value of the stock at its highest price on or before the day of trial.

The same rule was approved by the Supreme Court of Pennsylvania in *Bank of Montgomery* v. *Reese*, 2 Casey (26 Pa.) 143, and *Musgrave* v. *Beckendorff*, 3 P. F. Smith (53 Pa.) 310. But it has been restricted in that State to cases in which a trust relation exists between the parties—a relation which would probably be deemed to exist between a stock broker and his client. See *Wilson* v. *Whitaker*, 13 Wright (49 Pa.) 114; *Huntingdon & B. T. R. & Coal Co.* v. *English*, 86 Pa. 247.

Perhaps more transactions of this kind arise in the State of New York than in all other parts of the country. The rule of highest intermediate value up to the time of trial formerly prevailed in that State, and may be found laid down in *Romaine* v. *Van Allen*, 26 N. Y. 309, and *Markham* v. *Jaudon*, 41 N. Y. 235, and other cases,—although the right application of the rule was deprecated by the New York Superior Court in an able opinion by *Judge Duer*, in *Suydom* v. *Jenkins*, 3 Sandf. 614. The hardship which arose from estimating the damages by the

highest price up to the time of trial, which might be years after the transaction occurred, was often so great that the Court of Appeals of New York was constrained to introduce a material modification in the form of the rule, and to hold the true and just measure of damages in these cases to be the highest intermediate value of the stock between the time of its conversion and a reasonable time after the owner has received notice of it to enable him to replace the stock. This modification of the rule was very ably enforced in an opinion of the court of appeals delivered by *Judge* Rapallo, in the case of *Baker* v. *Drake*, 53 N. Y. 211, which was subsequently followed in the same case in 66 N. Y. 518, and in *Gruman* v. *Smith*, 81 N. Y. 25; *Colt* v. *Owens*, 90 N. Y. 368, and *Wright* v. *Bank of Metropolis*, 110 N. Y. 237 (13 Cent. Rep. 415).

It would be a herculean task to review all the various and conflicting opinions that have been delivered on this subject. On the whole it seems to us that the New York rule, as finally settled by the Court of Appeals, has the most reasons in its favor, and we adopt it as a correct view of the law.

The judgment is reversed, and the cause remanded to the Supreme Court of Utah, with instructions to enter judgment in conformity with this opinion."

The principles stated and applied in *Galigher* v. *Jones*, also have been followed by the Circuit Court of Appeals for the Eighth Circuit in *McKinley* v. *Williams*, 74 Fed. 94, and in *White* v. *Fuller*, 104 Fed. 192, and by the District Court for the District of Massachusetts in *In re Swift et al.*, 114 F. 947. In *McKinley* v. *Williams* the Circuit Court of Appeals for the Eighth Circuit stated (pp. 103-104):

"*Counsel for the appellant argues that this rule should not be applied to this case, because the stocks which the appellant obtained never became the property of the appellee, and hence could not have been converted. The answer is that this measure of damages is as applicable to actions upon contracts as to*

those upon torts. Barnes v. *Brown*, 130 N. Y. 372, 382, 29 N. E. 760; *Maynard* v. *Pease*, 99 Mass. 555. Moreover, the reasons for its application to actions for the appropriation, by a trustee, of property impressed with a trust, are peculiarly cogent, and seem to us conclusive. In such cases this measure of damages rests upon the ordinary rule in equity that the trustee shall not put into his own pocket any of the profits arising from the trust. He is bound either to deliver the specific property on the day when the *cestui que trust* is entitled to its delivery, or to pay him, in lieu of it, the highest market value which it attains between that time and the expiration of a reasonable time after *cestui que trust* is notified of the acts of the trustee. *Wilson* v. *Whitaker*, 49 Pa. St. 114, 117. In this case the appellant was managing the business and selling the rights of the appellee in this property, as his agent, under a written agreement that no assignment or lease should be made without the written consent of the appellee. Whenever he sold any interest in, or sublet any of, the property of his principal, the latter was entitled to the immediate delivery of the proceeds of the sale or lease. When he took these stocks, his principal was entitled to them, or, at least, to four-fifths of them, as soon as he took them. He not only failed to deliver them to his principal, but he failed to notify him that he had received them at all, until they had passed their highest market value, and until some of them had become worthless. No facts or circumstances occur to us under which the reasons for the application of the measure of highest intermediate value would apply with greater force, or under which they would produce an effect more salutary than under those in the case in hand. The appellant stood in a relation of trust and confidence to the appellee. He failed for months—nay, he refused and still refuses—to deliver to him the stocks which he took in payment for his principal's property. He failed to report the fact that he had them until the time had passed when they could have been sold to the best advantage; so that the appellee was deprived of his best opportunity to sell them, while the appellant secured

this chance for himself. In violation of his trust, he took the risk of the fluctuating market. He ought now to pay the damage which the loss of its opportunities may have entailed upon his principal, and which he secured to himself alone by the violation of his trust.

The decree below must be affirmed, with costs; and it is so ordered." (Italics ours.)

The principle of the highest intermediate value could be applied as the measure of the damages to which the respondent is entitled in the pending action at law in aid of which this suit in equity for discovery was instituted, because the value of a patent is even more uncertain and fluctuating than the value of stocks.

All the facts and conditions which are required for the application of the principle of the highest intermediate value are disclosed in the declaration in the pending action at law, as that declaration clearly alleges the full performance by the respondent of all the terms and conditions of the contract of October 2, 1916, on the part of the respondent to be carried out and performed, long prior to the date of the breach of that contract by the petitioner. (R. 22.)

The principle of the highest intermediate value has been applied in a number of actions for damages for the breach of a contract to deliver articles having a market value, the basis for its application in those cases being that as the buyer has paid for the goods in advance, he is not in a position to purchase them in the open market; *Gregg* v. *Fitzhugh*, 36 Tex. 127 (1871); *Stapleton* v. *King*, 40 Iowa 278 (1875); *Kent* v. *Ginter*, 23 Ind. 1 (1864); *Dabovich* v. *Emeric*, 12 Cal. 171 (1859), and of course the principle is even more applicable to the pending action at law in aid of which discovery is sought hereby, because of the character and of the unique value of the property which is the subject matter of that action.

Shepherd v. *Hampton*, 16 U. S. 200, 4 L. Ed. 369, was an action for breach of a contract to deliver cotton. The plaintiff had recovered damages based on the highest market price of cotton in the New Orleans market on the date that delivery should have been made, and the Supreme Court affirmed that as the proper rule of damages for the case. Chief Justice Marshall stated that he, personally, did not think that rule would apply to a case where advances of money had been made by the purchaser under the contract. A note to this case in 4 L. Ed. pages 369, 370, states:

> "But when the purchaser has paid the price in advance, or has otherwise, as in the loan of stocks, been deprived of the use of his property, a doubt exists whether the purchaser is limited to the value of the article at the time of delivery or shall have the advantage of any rise in the market value of the article which may have taken place up to the time of trial, and different and conflicting decisions have, on this point, been made. In England and in New York the latter rule is laid down, on the ground that the purchaser, having been deprived of the use of his property, is entitled to the best price he could have obtained up to the time of the settlement of the question for the article, the delivery of which has not been made according to the vendor's agreement. Sedgwick on Meas. of Dam. 260."

It appears to us that the statement of the Chief Justice and the note quoted above, suggest that in the pending action at law, the respondent should be entitled to have the advantage of any increase in the provable value of the Isom patent or invention which may have taken place prior to the time of the trial, or at least during a reasonable time after the breach of the contract, as the contract in suit was completely performed by the respondent prior to the date of its breach by the petitioner.

IV.

It Would Be Unreasonable to Hold That the Contract of October 2, 1916, Only Could Have Been Breached When the Isom Patent Application Was Filed.

The petitioner's contention that the only measure of the damages which the respondent should be allowed to recover, is the market value of the application on which United States Letters Patent No. 1,285,200 later were issued, as of September 10, 1917, when that application was filed by Edward W. Isom and when it was assigned by him to the petitioner, is thoroughly unreasonable. Certainly, it cannot be the law that the respondent's cause of action accrued and the statute of limitations began to run against it, long prior to the date when the respondent knew or when the respondent by any means could have ascertained that the petitioner had breached the contract.

The Court of Appeals held that the correct date as to the point of time at which the petitioner's breach of the contract of October 2, 1916, occurred, will depend on the facts proved at the trial of the pending action at law, and that on the facts alleged that contract appears to have been broken on the date when the Isom application became merged into the Isom patent. (62 Fed. (2d) 663, 665) (R. p. 86) The respondent has contended that July 25, 1921, the date when the answer of the petitioner was filed in the original suit in equity probably is the date which should be fixed as the date of the petitioner's breach of the contract of October 2, 1916, because that probably was the earliest date of an unequivocal refusal by the petitioner to comply with the provisions of the contract by causing the improvements in the Jenkins ap-

paratus and process which are protected by that patent to accrue to the Jenkins Petroleum Process Company.

If the petitioner's position is correct, any person who has contracted to assign an invention, can avoid any liability for a breach of that contract, merely by keeping his secret patent application pending so long in the Patent Office that the patent does not issue until after the statute of limitations has run against the cause of action which accrued when the application was filed and was not assigned.

The petitioner's brief (pp. 27-28) attempts to controvert the above proposition by asserting that the statute of limitations may not have begun to run until after the discovery of the breach of the contract of which the respondent complains, and that accordingly even if the respondent's ignorance of the filing of the Isom application should prevent the beginning of the running of the statute of limitations, that would not change the date of the alleged breach or affect the measure of damages for that breach.

The petitioner's assertion is not supported by the authorities. Williston on Contracts states:

> "A mere failure by the defendant to disclose the facts on which a cause of action is based is not ordinarily sufficient to preclude him from setting up the statute. There must be some artifice or positive action to prevent the plaintiff's acquiring knowledge. * * *" (§ 2018, p. 3420)
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> * * * * *
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> "Ignorance of the plaintiff of his rights or of the facts on which his rights are based, when such ignorance is not due to fraudulent concealment by the defendant, is not generally held to prevent the running of the statute. * * *" (§ 2020, p. 3422)

The petitioner's brief (pp. 27-28) cites three state cases in support of its assertion, but one of those cases

(Mass.) related to a breach of trust and the other two cases (Pa. and W. Va.) are referred to by Mr. Williston as exceptions to the general rule.

The petitioner should not be allowed to control the amount of the respondent's damages by controlling the date of any breach of the contract in suit in the pending action at law. That however will be the result if the petitioner's contentions with reference to this point shall be sustained. The petitioner had the sole power and control over the filing of the application on the Isom invention, over the prosecution and the issuance of a patent on that invention and over the disclosure of the invention to the public. At any time prior to the date of issue of the Isom patent a substitute application could have been filed and the first application allowed to lapse. Even after the issue of the Isom patent, a re-issue application might have been filed and the prosecution renewed thereon within two years after the date of issue of the Isom patent. The petitioner virtually is contending that the Isom invention and the Isom patent should be valued as of the date the application was filed and was assigned to the petitioner; that as practically no evidence of value is available as of such date, only nominal damages may be recovered; and that under the contract of October 2, 1916, and under similar contracts, the petitioner and parties similarly situated can breach such contracts with impunity.

Conclusion.

The opinion of the Circuit Court of Appeals for the First Circuit herein should be affirmed if any of the evidence sought to be secured by the Bill of Discovery herein will be relevant and material to the question of the amount of the damages recoverable by the respondent in the

pending action at law for damages for the breach of the contract of October 2, 1916, in aid of which this suit in equity was instituted, in accordance with whatever theory as to the measure of those damages this Court may hold is applicable to the facts and to the circumstances presented by the issues in that pending action at law.

The petitioner's brief primarily attempts to support the proposition that the rule as to the admissible evidence to prove the amount of the damages in the usual action for the breach of a contract to transfer or assign property which has an easily ascertained and fixed market value or price, must be applied at the trial of the pending action at law in aid of which discovery is sought to limit and to restrict the respondent's right to introduce evidence which clearly would give the jury a basis for determining a reasonable and fairly compensatory value for the Isom patent and for the inventions protected thereby as the measure of the damages which the respondent has suffered on account of the petitioner's breach of the contract of October 2, 1916.

The court heretofore has held that the rule of damages should not depend upon the form of the action. (*Hetzel* v. *Baltimore & Ohio Railroad Company, supra.*) The petitioner therefore submits that the general principles relative to the allowance of damages which were stated by this Court in *Story Parchment Co.* v. *Paterson Parchment Paper Co.* 282 U. S. 555, should govern the determination of this case. In that case this court stated:

> "Where the tort itself (the contract in this case) is of such a nature as to preclude the ascertainment of the amount of damages with certainty, it would be a perversion of fundamental principles of justice to deny all relief to the injured person, and thereby relieve the wrongdoer from making any amend for his acts. In such case, while the damages may not

> be determined by mere speculation or guess, it will be enough if the evidence show the extent of the damages as a matter of just and reasonable inference, although the result be only approximate. The wrongdoer is not entitled to complain that they cannot be measured with the exactness and precision that would be possible if the case, which he alone is responsible for making, were otherwise. * * *" (p. 548)

All the evidence sought to be adduced by the Bill of Discovery herein relates to the question of the actual and practical utility and value of the inventions of the Isom patent and invention as established by the construction and by the operation and by the extent of the operation and by the economy and efficiency of the operation of the cracking stills embodying those inventions which have been constructed and operated by the petitioner. All that evidence is relevant and material to the question of the amount of the damages, if the respondent is entitled to recover its actual substantial damages in accordance with the general damages rule, or with the rule of gains prevented, or with the rule of the highest intermediate value, as those rules have been stated and applied by the courts in the cases cited hereinbefore.

All that evidence also is relevant and material to the question of the amount of the damages recoverable if the court shall hold that the damages recoverable must be measured by the value of the Isom patent and invention as of some certain date, but shall approve the principles followed in *Crichfield* v. *Julia* and in the tax cases, and shall permit the introduction of evidence of matters and things of a subsequent date in order that the jury may be fully advised as to the nature, the utility, the advantages and the extent of the use of the inventions of the Isom patent and so that it may determine a fair

valuation for that patent as of the date specified on the basis of that and of other general evidence.

Even if the petitioner's contentions should be accepted, the evidence sought to be adduced by the interrogatories in the Bill of Discovery will be relevant and pertinent to establish the inherent mechanical utility, as distinguished from the commercial use and utility, of the inventions of the Isom patent. In any event evidence of the operativeness and of the capacity for performing certain kinds of work of the inventions of the Isom patent should be admissible for the consideration of expert witnesses and of the jury in determining a fair value for that patent.

For the reasons stated above we respectfully submit that the opinion of the Circuit Court of Appeals for the First Circuit overruling the order of the District Court which dismissed the bill in equity for discovery herein should be affirmed.

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